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# A Comparative Study of the Independent Auditors' Reports of the Financial Records of the Township School Treasurers, Cook County, Illinois, for Fiscal years Ended June 30, 1963 and June 30, 1964

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A COMPARATIVE STUDY OF THE INDEPENDENT AUDITORS' REPORTS OF THE  
FINANCIAL RECORDS OF THE TOWNSHIP SCHOOL TREASURERS,  
COOK COUNTY, ILLINOIS, FOR FISCAL YEARS ENDED  
JUNE 30, 1963 AND JUNE 30, 1964

by  
Patrick F. Ahern

A Dissertation Submitted to the Faculty of the Graduate School  
of Loyola University in Partial Fulfillment of  
the Requirements for the Degree of  
Doctor of Education

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## LIFE

Patrick F. Ahern was born in Chicago, Illinois on September 11, 1925.

The writer attended Quigley Preparatory Seminary, Chicago, Illinois from which he graduated in June, 1943. He received a Bachelor of Arts degree from St. Mary of the Lake Seminary, Mundelein, Illinois in June of 1946. He earned a Master of Arts degree in Philosophy at Loyola University, Chicago, Illinois in February of 1951. He also earned a Bachelor of Science degree in Business Administration with a major in Accounting at this same University in June of 1956.

The author was an elementary school teacher at the Robert Healy School in Chicago, Illinois from 1954 to 1962. He has also earned a regular teaching certificate in High School Accounting. Since September, 1962, he has been the Principal of the Fernwood and the Charles H. Wecker Elementary Schools. His other assignments with the Chicago Public Schools include his being a teacher in the Special Summer Schools for one year, in the Regular Elementary Summer Schools for two years, and in the High School Summer Schools for two years.

The writer also served as a part-time lecturer in Philosophy at Loyola University, Chicago, Illinois, in 1950. He has taught numerous courses as a part-time lecturer in the Department of Accounting, Loyola University, Chicago, Illinois from 1956 to 1962.

## ACKNOWLEDGEMENT

The cooperation and assistance of many persons have contributed to this study.

The initial work was undertaken only after consultation and direction was provided by Mr. Raymond M. Maurello, Business Manager, School District 163, Park Forest, Illinois, Mr. Lawrence L. Hupe, Township School Treasurer, Township 37 - Range 13, Mr. David J. Hearne, Jr., CPA, former Township School Treasurer, and auditor for fiscal year ended June 30, 1964, of Township 36 - Range 13, and Dr. Joseph J. Zbornik, CPA, of the auditing firm of Brook, Zbornik and Associates.

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This thesis is dedicated to my wife, Rosemarie Moran Ahern, whose interest and concern have been the most important factors in its completion.



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## CHAPTER I

### INTRODUCTION

#### STATEMENT OF THE PROBLEM

Indicative of the important and much-needed advances made in recent years toward the over-all improvement of financial accounting and reporting for school districts was the inclusion into The School Code of Illinois of the requirement that "each school district shall, as of June 30 of each year, beginning with 1962 cause an audit of its accounts to be made by a person lawfully qualified to practice public accounting."<sup>1</sup>

This audit law culminates many developments at the national, state, and local levels which have increased the reliability of school records, fostered a greater comparability of financial data, and engendered a more professional approach to the stewardship of public funds for school purposes.

Ever since the first audit reports of school districts were filed, two committees of the Illinois Society of Certified Public Accountants, the Committee on Local Governmental Accounting and the Committee on Standards of Reporting, have assisted the Superintendent of Public Instruction in providing direction for

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<sup>1</sup>Illinois, Office of the Superintendent of Public Instruction, The School Code of Illinois, Circular Series A, No. 155 (Springfield: 1963), p. 17.

the improvement of the audit reports for school districts.

The Superintendent of Public Instruction, State of Illinois, requested the Illinois Society of Certified Public Accountants to conduct a review of the audit reports for fiscal year ended June 30, 1962 for the purpose of determining the compliance of such reports with the standards of reporting formulated by the American Institute of Certified Public Accountants and with the regulations pertaining to such reports under the provisions of State law. A detailed review of this study will be presented in Chapter III.

The findings and recommendations of this study are to be found in the letter of the Committee on Standards of Reporting of the Illinois Society of Certified Public Accountants, dated December 18, 1963, addressed to the Superintendent of Public Instruction and circulated to members of the Society. One of the five major findings was this:

The scope and style of the reports varied to such a degree as to pose a considerable review problem for any authority who may be charged with the responsibility of appraising the quality of reports against any set of standards recognized by your office [that of the Superintendent of Public Instruction] as a proper instrument of evaluation.<sup>2</sup>

The recommendation of the Committee on Standards of Reporting of the Illinois Society of Certified Public Accountants in terms of this finding was "that a model report form be developed

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<sup>2</sup>Letter from Harry I. Grossman, Chairman, Committee on Standards of Reporting, Illinois Society of Certified Public Accountants, to the Superintendent of Public Instruction, State of Illinois, December 18, 1963, p. 4.

as a guide available to school district auditors in achieving the reporting objectives of the Superintendent of Public Instruction."<sup>3</sup> The draft of such a guide has been prepared and circulated to the members of the Society by the Committee on Local Governmental Accounting on May 27, 1964.<sup>4</sup>

The work of these two committees was begun subsequent to the close of fiscal year ended June 30, 1963 and was concerned only with the audit reports for fiscal year ended June 30, 1962. The report of the study of the Committee on Standards of Reporting and the draft of the model audit report of the Committee on Local Governmental Accounting were both circulated prior to the close of fiscal year ended June 30, 1964. School district auditors, therefore, will have had the opportunity of reviewing and implementing the suggestions made by these two committees before preparing the audit reports for fiscal year ended June 30, 1964.

This study, of the independent auditors' reports of the Township School Treasurers of Cook County, Illinois for the fiscal years ended June 30, 1963 and June 30, 1964, is quite timely since the work of these two committees may affect the quality of audit reports for the second year under study.

It should be noted also that, unlike all other school dis-

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<sup>3</sup>Ibid., p. 5.

<sup>4</sup>Letter from Robert L. Coker, Chairman, Local Governmental Accounting Committee, Illinois Society of Certified Public Accountants to the Members of the Illinois Society of Certified Public Accountants, May 27, 1964.

strict financial reports required by the Superintendent of Public Instruction, there is no standard report form for the annual audit report which is prepared by Illinois Certified Public Accountants employed by the school districts, other than the standard form, "Questionnaire to Be Completed by School District Auditors," which is incorporated as part of the audit report.

#### PURPOSE OF THE STUDY

This lack of a standard report form and the recent work of the two committees of the Illinois Society of Certified Public Accountants provide the bases for the threefold purpose of this study, which will be served by the answers to these questions:

1. Will a comparative study of the audit reports of the financial records of the Township School Treasurers of Cook County, Illinois, for fiscal years 1962-1963 and 1963-1964 indicate a uniformity or lack of uniformity in form, scope, and content?

2. What specific changes will occur in the form, scope, and content of the audit reports for fiscal year 1963-1964 as the result of the work of the Committee on Standards of Reporting and the Committee on Local Governmental Accounting of the Illinois Society of Certified Public Accountants, as summarized and circulated by the Society in letters dated December 18, 1963 and May 27, 1964?

3. Will these changes produce greater uniformity in the form, scope, and content of the audit reports for fiscal year

1963-1964 as compared with fiscal year 1962-1963?

### PROCEDURES

The data which is used as the basis of this study has been collected from the independent auditors' reports of the records of the Township School Treasurers of Cook County, Illinois and the questionnaires which were completed by the school district auditors for fiscal years ended June 30, 1963 and June 30, 1964 as filed in the Office of the County Superintendent of Schools, Chicago, Illinois.

An analysis of these audit reports and questionnaires will be presented under three major headings:

1. The form of the reports - in which the physical features and the organizational structure of the reports will be studied.
2. The scope of the reports - in which the "scope section" of the audit reports and the over-all scope of the reports will be analysed, and
3. The content of the reports - in which an analysis of the statements, schedules, exhibits, and summaries of the audit reports will be presented.

Since the study will compare data for each of the two years under review, it will highlight the major changes which have resulted in the audit reports of the second year.

### FINANCIAL ACCOUNTING FOR SCHOOLS: A DEFINITION

Accounting is well defined in terms of its threefold

function: (1) to analyse and record business transactions; (2) to summarize recorded business transactions into periodic financial reports; and (3) to interpret the results of these business transactions by an analysis of financial reports. Although accounting may not be called a science, it is nonetheless an art based upon principles, or fundamental propositions, and the rules which govern acceptable accounting practice.<sup>5</sup>

The principles of accounting which apply to commercial organizations apply generally to governmental units. But, since governmental bodies have certain unique characteristics, these principles are sometimes adjusted so as to apply to governmental accounting as well. Governmental accounting, however, is so dependent upon the instructions, regulations, and decisions of legally constituted authority, that whenever and wherever sound accounting principles are in disagreement with legal requirements, these requirements must prevail.<sup>6</sup>

Financial accounting for schools differs from commercial accounting and from governmental accounting as well. It differs from the former since the concept of proprietary interest or owner's equity, characteristic of commercial enterprises, does not apply. Moreover, the careful, managerial influence which characterizes the individual proprietorship, partnership, or corporation

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<sup>5</sup>Arthur W. Holmes et al., Elementary Accounting, (Homewood: Richard D. Irwin, Inc., 1956), p. 1.

<sup>6</sup>Arthur W. Holmes and Robert A. Meier, Advanced Accounting, (Homewood: Richard D. Irwin, Inc., 1950), p. 552.

is oftentimes found to be lacking in the governmental unit. In its stead appear governmental regulatory agencies, legislatures, and the general public. Financial accounting for schools differs, to a lesser extent, from governmental accounting, principally because public education occupies, among all the many functions of government, "a place quite as unique in the governmental system of the United States as the courts."<sup>7</sup> This unique function of education involves as well as creates, almost of necessity, certain situations calling for an adaptation of acceptable governmental accounting procedures and the implementation of many techniques applicable only to school accounting.

James E. Gibbs prefers the term educational accounting when he describes its importance:

The function of educational accounting is to classify, record, summarize, and report information about activities and conditions affecting pupils, schools, and governmental agencies responsible for education needed by the public generally, parents, legislative and fiscal bodies, boards of education, school administrators, and teachers, to enable them to make wise decisions about education. Adequate educational accounting, then, is a fundamental basis for planning, implementing, and evaluating educational programs.<sup>8</sup>

Not all authorities are agreed on the distinction between governmental accounting and financial accounting for schools. This

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<sup>7</sup>Paul R. Mort and Walter P. Reusser, Public School Finance, (New York: McGraw-Hill Book Co., 1951), p. 21.

<sup>8</sup>James E. Gibbs, "Financial Accounting Principles and Procedures for Local and State School Systems," School Business Affairs, XXIX (July, 1963), p. 3.

difference of opinion is well expressed by James W. Whitlock when he writes:

There are differences of opinion on accounting for public school funds. Some persons maintain that the accounting system of a school district, as a unit of local government, should conform to recognized governmental accounting standards. In contrast, others maintain that certain principles and procedures apply specifically to public school accounting.

Between these two opinions there are various others. All, however, revolve around the degree to which business and governmental accounting principles should apply to public school accounting.<sup>9</sup>

School accounting can be further classified into two main categories: statistical and financial.<sup>10</sup> Statistical accounting would include all quantitative information which is essential to the educational program other than financial data. This form of accounting, in a sense, is practically identical with the internal controls used within a business organization or governmental unit to insure the effectiveness of management. Specific examples of statistical accounting which are indicative of sound business management and the wise and prudent use of monies are: pupil accounting; personnel accounting; inventorying: of textbooks and other materials of instruction, of supplies, and of equipment; property control of land, buildings, and other assets; and related

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<sup>9</sup>James W. Whitlock, "Financial Accounting and Reporting: - - Where to Improve?" School Life, XLIII (June, 1961), p. 21.

<sup>10</sup>Roe L. Johns and Edgar L. Morphet, Financing the Public Schools, (Englewood Cliffs: Prentice-Hall, Inc., 1960), p. 450.



forms of record keeping. Financial accounting for schools, on the other hand, is directly concerned with the recording of those transactions which involve the receipt or expenditure of monies. But financial accounting so depends on statistical accounting, that, were an inadequate statistical accounting system in existence an inadequate financial accounting system would likewise be found.

It is impossible to state, in a single phrase, the many and varied purposes or ends served by financial accounting. The following selection does express the relationship of financial accounting to budgeting and reporting and defines the roles which a sound financial accounting system performs.

Financial accounting is much more than bookkeeping. While budgeting, accounting, and reporting are different components of fiscal administration, they are so closely interrelated that each must be planned to be consistent with the other components. Financial accounting is not an end in itself. It is for the purpose of enabling business management to be of maximum service to the educational program. Following are some of the business management operations in which financial accounting plays a vital part:

1. Budgets must be prepared annually. The information furnished from accounting records is essential for budget development and administration.
2. Boards of education have financial dealings with other institutions and agencies . . . Financial records are essential for the orderly conduct of business with all these parties.
3. A method must be provided for authorizing expenditures. The approved budget itself is a general authorization for spending money. But budgetary controls are necessary and pre-audits of expenditures must be provided for. Pre-audits of expenditures cannot be made unless cash and accrual accounting records are available.
4. In order for the schools to operate, purchases must be

made and contracts must be let. . . . Authorized procedures must be followed and forms developed for recording these transactions.

5. The board must pay for the obligations it has incurred. Therefore the board must develop procedures by which it can ascertain what it owes.

6. The payments made by the board must be recorded systematically, and the records must show at least to whom or to what agency or organization the payment was made and for what purpose.

7. The board must have revenue if it is to pay its obligations, so revenue must be procured by local taxation, state and federal appropriations, sale of property, insurance adjustments, loans or other sources. These receipts must be systematically recorded by source and by the fund or purpose for which they can be used.

8. Many activities involving financial transactions are carried on at individual schools. These activities may be supported entirely from non-tax funds or only in part from tax funds. Some activities, such as cafeteria operation, are partially commercial in character. The board has responsibility for general supervision over all of these activities even though they may not be operated from the central office.

9. The board and its employees must be able to prove from the records that all funds have been faithfully accounted for and that no funds have been stolen, lost, or misused.

10. The board must make reports of its financial operations to the public. Therefore account classification of the budget, the accounting system, and the financial reports should be consistent and appropriate.

11. Reports are made to the State, to the U. S. Office of Education and often to other agencies and organizations. Therefore the accounting system must meet state requirements, and the information provided should be comparable with that provided by other school systems.

12. Business management policies need to be evaluated. Therefore the accounting system must provide the information necessary for appropriate research. Cost analyses are of particular importance in evaluating certain policies . . . The board cannot make decisions which result in real economy and

efficiency unless it has the financial records and other types of records necessary to furnish essential information.<sup>11</sup>

### THE AUDITING FUNCTION: A DEFINITION

Auditing has been defined as the "type of work which the Certified Public Accountant performs as the basis for an opinion on the fairness with which financial position and the results of operations are presented."<sup>12</sup>

This definition applies to the term auditing, as it is commonly understood. However, it is necessary to distinguish four different types of audits, so that the term, as it is used in this paper, will be delimited to encompass only those activities which are involved in the post-audit or external audit, as it is often called.

Auditing may be classified into four types of audits: the pre-audit, the current audit, the operational audit, and the post-audit.<sup>13</sup> Many writers use this classification,<sup>14</sup> whereas others simply distinguish internal auditing from external auditing.<sup>15</sup>

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<sup>11</sup>Ibid., pp. 451-53.

<sup>12</sup>American Institute of Accountants, Audits by Certified Public Accountants, (New York: American Institute of Accountants, 1950) p. 8

<sup>13</sup>Arvid J. Burke, Financing Public Schools in the United States, (New York: Harper and Brothers, 1957) p. 55.

<sup>14</sup>Paul R. Mort, Walter C. Reusser, and John W. Polley, Public School Finance, (New York: McGraw-Hill Book Co., 1960), p. 486.

<sup>15</sup>Johns and Morphet, p. 500.

Internal auditing would include all the activities involved in the pre-audit, the current audit, and the operational audit; and the external audit would be considered as synonymous with the post-audit.

Arvid J. Burke defines the four classifications of auditing as follows:

1. Pre-audits: Management is responsible for making a pre-audit of all proposed financial liabilities or commitments to see that each expenditure is needed or justified, that the expenditure is authorized, that it is legal, and that there are unencumbered funds available to make the expenditure.

2. Current audits: Closely related to the pre-audit is the current audit . . . which checks the pre-audit approval or authorization of an expenditure, the rendering of the service or the receipt of the goods, the conformance with specifications, the orders or agreements, the prices charged, and the presence of errors or omissions in all documents or records involved.

3. Operational audits: The operational audit or work audit aims to check performance during a given period with plans appearing in the budget or work program. It is a most important function of management, requiring professional skill and technique.

4. Post-audits: The post-audit of all receipts and expenditures by outside auditors to check the legality, honesty, and accuracy of all records and transactions and to suggest possible improvements in management is the fourth type of audit. This audit may be detailed or it may follow a random sampling procedure. It may be done by private firms or state officials.<sup>16</sup>

As stated above, the term auditing will be understood in this paper as synonymous with the term post-audit and its definition will be that proposed by the American Institute of Certified Public Accountants. An audit, therefore, consists of:

a searching, analytical review of the books, vouchers, and

<sup>16</sup>Burke, pp. 55-58.

other evidence supporting the information set forth in the financial statements, and contemplates the preparation of a written report in which the Certified Public Accountant states his findings. In the course of his audit, he employs a variety of techniques and tests, selecting the procedures which in his judgment and experience are best suited to each engagement.<sup>17</sup>

The manner in which the independent auditor is appointed and his status in relation to the client are important considerations to those who rely on his findings. In this regard the American Institute of Certified Public Accountants has stated:

In addition to professional skill and competence, his independence must be assured if his opinions are to possess the impartiality necessary to make them dependable. To be independent he must be intellectually honest; to be recognized as independent he must be free from any obligation to or interest in management, owners, creditors - or others entitled to rely on his report - which might influence his judgment as to the fairness of the financial statements.

To emphasize his independence of management many corporations affected by public interest follow the practice of having him engaged or nominated by the board of directors or elected annually by the stockholders. Other corporations provide that the stockholders be given an opportunity to ratify the selection made by the directors.<sup>18</sup>

Those who use financial statements look to the Certified Public Accountant's report in determining the credibility of financial statements because they know that the auditor's report presents the conclusions of an independent expert in accounting and auditing.

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<sup>17</sup> Audits by Certified Public Accountants, p. 8.

<sup>18</sup> American Institute of Accountants, Codification of Statements of Auditing Procedure, (New York: American Institute of Accountants, 1951), pg. 8.

Howard M. Wright applies this same emphasis to the auditor's independence when he writes of the auditing of governmental units:

An independent audit should be made. The audit may be performed by a firm of independent Certified Public Accountants or by the governmental body's staff of internal auditors. In the latter case the auditors must be so organizationally located as to be in fact independent of the activity subject to audit.<sup>19</sup>

A word concerning the importance of accurate reporting should be inserted before a discussion of auditing standards, procedures, and techniques. Sam B. Tidwell speaks of the end-product of financial accounting and auditing for schools as the financial statements, and he stresses the four purposes served by these statements:

Very few taxpayers, except those elected to serve on school boards, ever examine the accounting documents - the financial statements. These tell not how you intend to spend the money, but how in fact it has come in and gone out. As used by school boards, these statements serve four purposes.

1. They help in controlling the use of the school district's money.
2. They clarify the financial situation so that wise management is facilitated.
3. They assist trustees in accounting for special funds.
4. They help in reporting on the school board's stewardship to the state education department and to the public.<sup>20</sup>

<sup>19</sup>Howard W. Wright, "Tentative Statement of Governmental Accounting," The Accounting Review, XXXIII (April, 1958), p. 213.

<sup>20</sup>Sam B. Tidwell, Chairman, Committee on Public School Accounting, American Institute of Certified Public Accountants, Public School Costs, (New York: American Institute of Certified Public Accountants, 1963), p. 21.

The auditing standards which guide the independent auditor serve to acquaint the general public with the quality of the auditor's opinion. These standards, as enunciated by the Committee on Auditing Procedure of the American Institute of Accountants, are classified as follows:

#### General Standards:

1. The examination is to be performed by a person or persons having adequate technical training and proficiency as an auditor.
2. In all matters relating to the assignment an independence in mental attitude is to be maintained by the auditor or auditors.
3. Due professional care is to be exercised in the performance of the examination and the preparation of the report.

#### Standards of Field Work:

1. The work is to be adequately planned and assistants, if any, are to be properly supervised.
2. There is to be a proper study and evaluation of the existing internal control as a basis for reliance thereon and for the determination of the resultant extent of the tests to which auditing procedures are to be restricted.
3. Sufficient competent evidential matter is to be obtained through inspection, observation, inquiries and confirmations to afford a reasonable basis for an opinion regarding the financial statements under examination.

#### Standards of Reporting:

1. The report shall state whether the financial statements are presented in accordance with generally accepted principles of accounting.
2. The report shall state whether such principles have been consistently observed in the current period in relation to the preceding period.
3. Informative disclosures in the financial statements are

to be regarded as reasonably adequate unless otherwise stated in the report.

4. The report shall either contain an expression of opinion regarding the financial statements, taken as a whole, or an assertion to the effect that an opinion cannot be expressed. When an over-all opinion cannot be expressed, the reasons therefor should be stated. In all cases where an auditor's name is associated with financial statements the report should contain a clear-cut indication of the character of the auditor's examination, if any, and the degree of responsibility he is taking.<sup>21</sup>

The American Institute of Certified Public Accountants has, in all its official pronouncements, clearly distinguished between auditing standards and audit procedures. The distinction is perhaps best expressed in this statement:

Auditing standards may be regarded as the underlying principles of auditing which control the nature and extent of the evidence to be obtained by means of auditing procedures.<sup>22</sup>

A detailed listing and explanation of the audit procedures which are normally employed in the conduct of an audit may be found in any standard text in the field. These listings normally are presented in detail for every account title which appears on the financial statements. Descriptions of auditing procedures which are often employed in the audits of small or medium-sized companies engaged in industry are classified by the American Institute of Certified Public Accountants under these major headings: cash, notes receivable, accounts receivable, inventory, investments,

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<sup>21</sup>American Institute of Accountants, Generally Accepted Auditing Standards, (New York: American Institute of Accountants, 1954), pp. 13-14.

<sup>22</sup>Ibid., pp. 12-13.



property, intangible assets, deferred charges and prepaid expenses, other assets, liabilities, notes payable, accounts payable, other current liabilities, long-term liabilities, contingent liabilities, estimated future liabilities and appropriations of retained income, capital stock, other capital items and retained income, and income and expense accounts. Specific audit procedures are described for each of these accounts.<sup>23</sup>

Detailed and comprehensive illustrations of the application of auditing procedures may be found in the series of Case Studies in Auditing Procedure, which the American Institute of Certified Accountants has published since 1947. In these case studies may be found descriptions of auditing procedures which were actually followed in a particular case.

Practically every audit procedure which is used could be categorized into one or more of the following auditing techniques: analysis and review, observation, inspection, confirmation, inquiry, or computation.<sup>24</sup> These techniques are characteristic of the varied procedures which the auditor would employ in the conduct of an audit. But in all his work, the auditor is guided by standards which have been developed by the profession to assure the highest degree of professional performance.

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<sup>23</sup>Audits by Certified Public Accountants, pp. 31-51, in which definitions and illustrations of auditing procedures are proposed.

<sup>24</sup>Ibid., pp. 28-29, wherein descriptions of each of these techniques are advanced.

## PRESENT STATUS OF FINANCIAL ACCOUNTING FOR SCHOOL SYSTEMS

An historical review of the advances made in the past several years in the standardization and uniformity of financial accounting for schools will indicate that the major impetus for such improvement was provided by the United States Office of Education. Its four handbooks in the "State Educational Records and Report Series" have exercised a profound influence in upgrading the quality of reporting and in standardizing terminology with the concomitant advantages to all who rely on the financial reports of school districts.

The National Council of Chief State School Officers, having recognized the importance of the comparability of all forms of educational data and the common understanding of basic terminology, petitioned the United States Office of Education to conduct a cooperative project with the state departments of education to attain these two objectives. This project was undertaken in July of 1951, and it has involved the cooperative efforts of representatives of the United States Office of Education and representatives of the following associations: The American Association of School Administrators, the Association of School Business Officials of the United States and Canada, the National Council of Chief State School Officers, the National Education Association, the National School Boards Association, and the Non-public School Association. The Foreword to each of these handbooks describes in detail the steps

which were taken before their final form was approved.<sup>25</sup>

The first handbook to be developed from this project is entitled: The Common Core of State Educational Information. Local, regional, and national meetings, held between July, 1951 and June, 1953, actively involved representatives of each of the states and territories as well as each of the participating groups. At its annual meeting in June, 1953 the National Council of Chief State School Officers officially accepted Handbook I with this resolution:

We recognize the importance of adequate educational accounting. We urge, therefore, that the State and Territorial Departments of Education make prompt and complete use of the common-core terminology for comparable statistical information developed cooperatively by the U. S. Office of Education and State and Territorial Departments to the end that information in local, state, and federal reports will be more meaningful.

We urge also that the U. S. Office of Education continue its important work in developing an adequate system of financial, personnel, and property accounting for use in all States. We pledge our continued cooperation in this endeavor.<sup>26</sup>

This handbook is divided into three major sections. Chapter One is a glossary of educational terminology which presents definitions of basic terms which are used in information recorded and reported each year by the school unit. Chapters Two through Ten contain descriptions of items which are to be recorded and reported annually for the school year which has just been comple-

<sup>25</sup>Paul L. Reason, The Common Core of State Educational Information, State Educational Records and Report Series, Handbook I, U. S. Dept. of Health, Education, and Welfare, Office of Education, (Washington: U. S. Government Printing Office, 1953), pp. xii-xvi.

<sup>26</sup>Ibid., p. xi.

ted. Chapter Eleven contains descriptions of items which are to be reported in the Fall of the year for the current fiscal year.

From an accounting standpoint, the principal value of this handbook lies in its concise definitions of terms which deal with the financial aspects of a school system. Attesting to the value that this handbook has served is the common acceptance by writers in the field of school finance of such terms as: capital outlay, current expense, debt service, expenditures, fixed charges, fund, and the like. But its major value is its contribution to the standard and uniform meaning of educational terminology which is the basis for the standardization and uniformity of financial record keeping and reporting.

Handbook II in this series, entitled: Financial Accounting for Local and State School Systems, published in 1957, has had far-reaching effects in the over-all improvement of financial accounting and reporting for school districts, State Departments of Education, and the Office of Education. After three years of national, regional, and local conferences, the cooperating organizations officially approved the handbook as the basic guide for financial accounting for local and state school systems and recommended that "Federal, State, and local agencies effect its use promptly and completely."<sup>27</sup>

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<sup>27</sup>Paul L. Reason, Financial Accounting for Local and State School Systems, State Educational Records and Report Series, Handbook II, U. S. Dept. of Health, Education, and Welfare, Office of Education, (Washington: U. S. Government Printing Office, 1957), p. vii.

What this handbook was intended to accomplish and has accomplished is expressed in the Introduction:

This handbook is a guide to receipt and expenditure accounting for local and state school systems. It contains standard receipt and expenditure accounts, classified and defined, and additional accounting terminology necessary to their effective use.

Standard accounts and terminology are the foundation for accurate recording, reporting, and interpretation of financial information. Only when basic items of financial information have the same meaning everywhere in the Nation, can they be used profitably for all purposes.<sup>28</sup>

The handbook does not develop a detailed accounting system for schools, but rather it concentrates on accounts and terminology which are acceptable to school districts of all sizes and descriptions.

With minimum accounts recommended for all school districts and additional accounts for those who wish to expand their accounting systems, the handbook offers answers to the recording of just about any receipt or expenditure of money a school district might have. Most of the common and not so common receipts and expenditures are treated specifically, but for those which are not, the handling of similar items provides expert guidance.<sup>29</sup>

The Introduction to this handbook states the important advantages which would follow its universal acceptance. The major advances which have occurred since its publication are adequate testimony of the accurate statement of these nine benefits:

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<sup>28</sup>Ibid., xvi.

<sup>29</sup>Elaine Exton, "Better Management through Comparable School Figures," The American School Board Journal, Volume 134, March, 1957, p. 59.

(a) help to insure appropriate initial recording of financial data; (b) improve the accounting for school funds; (c) improve school budgeting; (d) establish a sound basis for cost accounting; (e) improve the accuracy of local, state, and national summaries; (f) facilitate comparisons of financial information among communities and among states; (g) enable local and state educational authorities to obtain more suitable needed information for policy determination; (h) improve the accuracy of educational research; and (i) facilitate and improve reliable reporting to the public on the condition and progress of education.<sup>30</sup>

A supplementary volume to Handbook II was published in 1959 under the title: Financial Accounting for School Activities.<sup>31</sup> This supplement contains a standard classification and definition of accounts for handling receipts and expenditures for school activities and, for illustrative purposes, presents a system of accounting to show how these accounts may be used. The need for this supplement parallels the increase and expansion in recent years of school activity programs and the amount of money necessary to finance these programs.

Handbook III: Property Accounting for Local and State School Systems, published in 1959, classifies and defines specific items of information regarding property. The recommended accounts are adaptable to any school system regardless of size or program.

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<sup>30</sup>Paul L. Reason, Financial Accounting for Local and State School Systems, p. xvi.

<sup>31</sup>Everett V. Samuelson, Financial Accounting for School Activities, State Educational Records and Reports Series, Bulletin, U. S. Dept. of Health, Education, and Welfare, Office of Education (Washington: U. S. Government Printing Office, 1959).

Items and terminology which are defined and classified in this handbook are correlated with items and information contained in Handbooks I and II.<sup>32</sup>

The entire series, of the three handbooks and the supplement to Handbook II, should be regarded as a unified study intended to guide those charged with the responsibility of recording, reporting, and analysing financial data for school districts.

Indicative of the importance of these handbooks to the over-all improvement of the accounting function are these two statements which preface the list of acknowledgements in the Illinois Financial Accounting Manual for Local School Systems:

It appears to be appropriate and almost mandatory to acknowledge our indebtedness to the Commissioner of Education and the individuals from many professional education associations who conceived the idea of developing and publishing Handbook II, Financial Accounting for Local and State School Systems.

The concept of a more comprehensive and improved system of financial accounting is unmistakably present in Handbook II. Moreover, it has proved to be an incentive and an inspiration to the staff of the Office of Public Instruction and the state-wide committee who have been working to produce an accounting manual to meet the specific needs of schools in Illinois.<sup>33</sup>

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<sup>32</sup>Paul L. Reason, Property Accounting for Local and State School Systems, State Educational Records and Reports Series, Handbook III, U. S. Dept. of Health, Education, and Welfare, Office of Education, (Washington: U. S. Government Printing Office, 1959).

<sup>33</sup>Illinois, Office of the Superintendent of Public Instruction, Illinois Financial Accounting Manual for Local School Systems, Circular Series A, No. 138, (Springfield, 1961), p. iv.

Prior to the publication of Handbook II, the School Problems Commission, State of Illinois, initiated deliberations and discussions toward the improvement of financial accounting at the State, county, and local levels. In 1957, the Illinois General Assembly enacted legislation which provided for a new system of financial accounting for local school systems to become effective on July 1, 1959. This date was changed by amendment to July 1, 1961, principally because the task of revising the system of accounting was so very complex.<sup>34</sup>

Shortly after the publication of Handbook II, the Superintendent of Public Instruction formed a state-wide committee of representatives of the Office of the Superintendent of Public Instruction, of County Superintendents of schools or their representatives, of representatives of large city school systems, and of members of certified public accounting firms, to develop a manual of accounting patterned after the suggestions contained in Handbook II and adapted to the needs of Illinois schools.<sup>35</sup> The Illinois Financial Accounting Manual for Local School Systems is the product of the cooperative efforts of the various members of this committee. Its relationship to Handbook II is expressed in the introduction to the manual:

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<sup>34</sup>Ibid., p. iii

<sup>35</sup>Ibid., pp. iv-vi.



Illinois Financial Accounting for Local School Systems is in many respects not an adaptation of Handbook II but rather an accounting manual and chart of accounts developed to meet the exact needs of Illinois schools. In order to conform to the concept of standardization advocated so urgently by school officials on the national, State, and local levels, the committee and the consultants have retained as much of the terminology, chart of accounts and other significant and important parts of Handbook II as was possible.<sup>38</sup>

The manual aims to achieve uniformity in the accounting function. A glossary of terms, a decimal classification of all possible accounts which a school district, under any circumstance, would be required to maintain, detailed explanations of the recording of all financial transactions, and instructions regarding the preparation of the "Annual Financial Report" are the major concerns of the manual.

The manual also discusses these important aspects of the accounting function: the legal basis for school accounting, the preparation of the "School District Budget Form" and the computation of per capita cost per student.

Since the manual serves to express the legal requirements of the accounting function and the methods of implementing these requirements, it likewise will serve as the source of summarizing the present practices in school accounting for school districts in the State of Illinois. These practices merit special consideration:

1. The type of accounting system. - School districts are free to choose either the cash basis or the accrual basis of ac-

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<sup>38</sup>Ibid., p. viii.

counting.<sup>37</sup> Under the cash basis of accounting, revenues are recorded as revenues only when cash or another asset (which can be converted into cash) is actually received, and expenditures are recorded as expenditures only when cash or another asset is actually disbursed. Under the accrual basis of accounting, revenues are recorded when earned or when levies are made for these revenues, and expenditures are recorded as soon as the liability is incurred, regardless of when the revenue is actually received or when the payment is actually made.<sup>38</sup> Obviously, financial statements under the accrual basis of accounting will not have any relationship, for comparative purposes, with financial statements under the cash basis of accounting. For this reason, separate forms of the "School District Annual Financial Report" are prepared by

<sup>37</sup>Illinois, The School Code of Illinois, p. 87: "In Class I or Class II county school units the school board may use either a cash basis or accrual system of accounting; however, any board so electing to use the accrual system shall not change to a cash basis without the permission of the Superintendent of Public Instruction."

<sup>38</sup>These definitions agree with those presented by the U. S. Office of Education. The accrual basis is defined as "The basis of accounting under which revenues are recorded when earned or when levies are made, and expenditures are recorded as soon as they result in liabilities, regardless when the revenue is actually received or the payment is made." The cash basis is defined as: "the basis of accounting under which revenues are recorded only when actually received, and only cash disbursements are recorded as expenditures." Paul L. Reason, Financial Accounting for Local and State School Systems, p. 214, 219.

the Office of the Superintendent of Public Instruction: one for the use of cash basis school districts and the other for the use by the accrual basis school districts. In the "School District Annual Financial Report" forms provided by the Office of the Superintendent of Public Instruction the cash basis school districts are required to provide certain financial and statistical information pertaining to items owed to and owed by the school district. This supplementary information enables the Office of the Superintendent of Public Instruction to convert the cash basis report to the accrual basis, so that comparative studies may be made of all districts.<sup>39</sup>

The proposed revision of the Illinois Financial Accounting Manual for Local School Systems, which is not yet completed but which is intended to become effective for fiscal year 1965-1966,<sup>40</sup> will distinguish between the cash basis and the accrual basis to such an extent that separate, detailed explanations will be offered for each basis. As of this writing, only the cash basis,

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<sup>39</sup>Illinois, Illinois Financial Accounting Manual for Local School Systems, p. 16.

<sup>40</sup>This information is contained in the instructional page of the proposed revision of the Illinois Financial Accounting Manual for Local School Systems, forwarded to the writer on August 4, 1964 by Allen F. Dye, Assistant Director, Finance and Statistics, Office of the Superintendent of Public Instruction, State of Illinois. See also: Appendix II, Correspondence. Illinois, Office of the Superintendent of Public Instruction, Illinois Financial Accounting Manual for Local School Systems, Revised Edition, Circular Series A, No. 138, (Springfield, no date), instructional page.

section D, is completed. But an extensive explanation of the accounting implications of this basis sharply distinguishes this basis from the accrual basis, which will be treated in section E of the revised manual.

Included in the cash basis presentation, and the same pattern will be followed for the accrual basis, are these characteristics of the cash basis of accounting: the five types of accounts: assets, liabilities, fund balances, cash revenues and cash expenditures; the process of accounting, including the appropriate journals needed; the double-entry method of bookkeeping; the coding of transactions; the recording of transactions with illustrative entries in the cash receipts journal, the cash disbursements journal, postings to ledger accounts, and necessary adjusting entries; the taking of a trial balance; the encumbering of cash expenditure accounts; and the preparation of financial statements. The explanation likewise presents illustrative forms showing the relationship of expenditures as of a given date in a year in terms of the budgeted appropriations and the "running" balances for each account in each fund. A minimum chart of accounts for the cash basis school districts is presented, together with definitions of each of these accounts.

It should be noted that the American Institute of Certified Public Accountants has taken a strong stand against the cash basis of accounting. Indicative of the major reasons for this stand

is that:

Cashbasis statements ordinarily do not purport to present either the financial position of an enterprise at a given date or the results of its operation for a given period of time. A statement of assets and liabilities on a cash basis (reflecting, as it frequently does, only assets and liabilities resulting from cash transactions and sometimes not even that) is not, except by coincidence, an adequate statement of financial position. A statement of revenues collected and expenses paid is not, in most instances, the equivalent of a statement of income or of operating results and should not be construed as such.<sup>41</sup>

But yet, of the 1607 school districts in the State of Illinois in 1961, 1450 districts were on the cash basis of accounting.<sup>42</sup> Two important reasons for this may well be: the absence of a professional accountant responsible for the complexity of the accrual basis of accounting in the small-sized school districts,<sup>43</sup> and the non-profit form of financial activities which causes many to feel that "true financial position" as of a given date is not so important.<sup>44</sup>

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<sup>41</sup>Letter from Harry I. Grossman, p. 3., which quotes a monograph published under the auspices of the American Institute of Certified Public Accountants in 1960, entitled "Special Reports."

<sup>42</sup>Illinois, Illinois Financial Accounting Manual for Local School Systems, p. 3.

<sup>43</sup>Ibid., p. viii.

<sup>44</sup>W. Lynn Fluckiger, "A Philosophy of Fund Accounting," The Journal of Accountancy, August, 1963, p. 67, in which the author presents four dilemmas faced by the accountant in institutional vs. commercial engagements: (1) the matching of receipts and outlays in any given period does not in any way correspond to operating efficiency; (2) the computing of costs is much less meaningful; (3) the reporting of financial performance is less meaningful; and (4) the financial statements cannot be considered a measure of efficiency.

2. The method of bookkeeping. - All school districts, regardless of whether they use the cash basis or accrual basis of accounting, are required to use the double-entry method of bookkeeping.<sup>45</sup> The main advantage of this method is that it contains a constant, automatic, arithmetic check on the bookkeeping function, and, if errors are made, they are quite readily detected.<sup>46</sup>

3. The process of accounting. - What was heretofore implied in the Illinois Financial Accounting Manual for Local School Systems is now expressed quite clearly in the proposed revision:

Each school district should provide itself with an appropriate set of journals (books of original entry) and ledgers (books of final entry) for the recording, summarization, and control of transactions. The form of such books is a matter of individual preference (there being many forms available), as is the equipment utilized in keeping them, effective methods being available either manually or mechanically. The only requirement is that such records be kept by the double-entry method.<sup>47</sup>

4. The classification of accounts. - The revised manual explains the coding system used in school accounting. The coding of accounts is the assignment of account numbers to provide an orderly method of analysing each financial transaction. The broad classifications of assets, liabilities, fund balances, revenues, or receipts, and expenditures, or disbursements, are subdivided into many smaller classifications according to a planned coding

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<sup>45</sup>Illinois, Illinois Financial Accounting Manual for Local School Systems, p. 3.

<sup>46</sup>Arthur W. Holmes et al., Elementary Accounting, p. 137.

<sup>47</sup>Illinois, Illinois Financial Accounting Manual for Local School Systems, Revised Edition, p. D-2.

system which results in a chart of accounts. The proper coding of transactions involves an analysis whereby the transaction is classified into a specific fund, account, function, and object.

The chart of accounts is the basic guide to the assignment of account numbers in recording transactions within each fund. Each district must adopt a chart of accounts for use in maintaining its accounting records. The "minimum chart of accounts" included herein presents the accounts which each district must provide if it has transactions of the type intended to be included in any of these accounts. Each district will be expected to be able to provide information for statistical purposes as to each of these accounts.

On the other hand, a district may desire, for its own purposes, additional information with respect to certain phases of its operations. It may provide such additional accounts, by expansion of the minimum accounts, as it feels may be desired for its own purposes.<sup>48</sup>

The manual illustrates the coding system by analysing a specific account number, "1-502.34." The "1" indicates the educational fund; the "5" indicates an expenditure account; the "02" indicates the function, instruction; the ".3" indicates the object supplies; and the "4" might indicate a subject or special program area, such as art, as determined by the local district. This last digit serves to illustrate the expansion of the minimum chart of accounts by a school district to suit its own purposes.<sup>49</sup>

5. The financial reports. - The School Code of Illinois stipulates three distinct forms of financial statements which must be prepared by the local school district. Section 8-15 dictates

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<sup>48</sup>Ibid., p. D-4.

<sup>49</sup>Ibid., p. A-10.

that the school treasurer furnish a monthly reconciliation of accounts to the school board which he serves.<sup>50</sup> Section 10-17 requires the publication of the annual financial statement and other statistical data prior to December 1, "in a newspaper of general circulation published in the respective school districts."<sup>51</sup> Section 3-15.1 requires each school district to prepare and forward to the office of the county superintendent on or before October 15, annually, a statement which exhibits "the financial condition of the school for the preceding year commencing on July 1 and ending June 30."<sup>52</sup>

This last statement, officially entitled: the "School District Annual Financial Report," is a form prepared and printed by the Office of the Superintendent of Public Instruction and circulated to the school districts in Illinois with instructions for its completion. As was mentioned earlier in this chapter, two separate forms are prepared: the "accrual basis" report for those school districts on the accrual basis of accounting and the "cash basis" report for those school districts on the cash basis of accounting. Although these report forms differ markedly, as would be expected, they nonetheless have these similar characteristics: (1) both are pre-printed forms requiring only the insertion of the ap-

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<sup>50</sup>Illinois, The School Code of Illinois, p. 67.

<sup>51</sup>Ibid., p. 87.

<sup>52</sup>Ibid., p. 22.



appropriate dollar amounts for each account; (2) for each statement the minimum chart of accounts appears followed by the proper codification of that account; and (3) on each statement appear instructions regarding the necessary procedures of computation and presentation of related data.

The preparation of the "School District Annual Financial Report" demands the strict adherence to the requirements of the Illinois Financial Accounting Manual for Local School Systems. This type of adherence will insure the standardization, the uniformity, and the resultant comparability of financial statements for all school districts.

#### CLASS I AND CLASS II COUNTY SCHOOL UNITS: A DISTINCTION

The School Code of Illinois provides the legal basis for the division of the State of Illinois into Class I county school units and Class II county school units. Since the accounting and the auditing requirements for school districts differs in terms of the type of county school unit, it is necessary to discuss the accounting and auditing implications for each of these types of county units.

Section 5-1 of the code defines the Class I and the Class II county school units and establishes the basis for the office of township trustees for the Class II county school unit:

County school units of less than 1,000,000 inhabitants shall be known as Class I county school units and the office of

township trustees, where existing on July 1, 1962, in such units shall be abolished on that date and all books and records of such former township trustees shall be forthwith thereafter transferred to the county board of school trustees. County school units of 1,000,000 or more inhabitants shall be known as Class II county school units and shall retain the office of township trustee.<sup>53</sup>

Since the County of Cook is the only county in Illinois with more than 1,000,000 inhabitants, it is the only county which is considered a Class II county school unit, and it is, therefore, the only county which has township school trustees, standing in a middle position, as it were, between the County Board of Trustees and the local school boards of the individual school districts. In all other counties in Illinois, known as Class I county school units, the office of township trustee no longer exists.

#### THE COOK COUNTY PUBLIC SCHOOLS: ORGANIZATION

Table 1 shows the organization of the Cook County Public Schools in terms of township description, numbers of elementary and high school districts with each township, and total districts for fiscal years 1962-1963 and 1963-1964. The only change in organization for the second year was the assignment of School District 163 from Township 35 - Range 13 to Township 35 - Range 14. The total number of school districts remained the same.

It should be noted that Township 41 - Range 9, Hanover Township, has no school districts within Cook County, and is, for this reason, to be excluded from this study.

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<sup>53</sup>Illinois, The School Code of Illinois, p. 28.

TABLE 1.--Organization of the Cook County Public Schools by township, number of elementary and high school districts within each township, and total districts for fiscal years 1962-1963 and 1963-1964

Township Description			Elementary School Districts	High School Districts	Total School Districts
Township	Range	Name			
42	9	Barrington	2	0	2
42	10	Palatine	1	0	1
42	11	Wheeling	4	1	5
42	12	Northfield	6	1	7
42	13	New Trier	5	1	6
41	9	Hanover	0	0	0
41	10	Schaumburg	1	1	2
41	11	Elk Grove	2	0	2
41	12	Maine	3	1	4
41	13	Niles	9	1	10
41	14	Evanston	1	1	2
40	12	Leyden	9	2	11
40	13	Jefferson	1	1	2
39	12	Proviso	11	2	13
39	13	Cicero	4	2	6
38	12	Lyons	9	2	11
38	13	Stickney	2	1	3
37	11	Lemont	1	1	2
37	12	Palos	2	1	3
37	13	Worth	9	3	12
37	14	Calumet	2	0	2
36	12	Orland	4	0	4
36	13	Bremen	6	1	7
36	14	Thornton	9	1	10
36	15	Thornton Frac	5	1	6
35	13	Rich	5, 4*	1	6, 5*
35	14	Bloom	6, 7*	2	8, 9*
35	15	Bloom Frac	2	0	2
Total			121	28	149

\*Represents change of School District 163 from T35-R13 to T35-R14, for fiscal year 1963-1964.

The Cook County school system is divided into twenty-eight township school districts. Twenty-seven of these township school districts have a total of 121 elementary school districts and twenty-eight high school districts. Table 1 shows the range in the number of local school districts within each of the township school districts. The township school district of Palatine, T42-R10, has but one elementary school district, whereas the township school district of Proviso, T39-R12, has eleven elementary school districts and two high school districts. Regardless of the size or the complexity of the township school district, the duties of the township school treasurers are the same.<sup>54</sup>

#### THE TOWNSHIP SCHOOL TREASURER: RESPONSIBILITIES

A major difference between the Class II county school unit and the Class I county school unit concerns the position and the duties of the township school treasurer and the local school treasurer. In Class II county school units the trustees of schools appoint a treasurer, known as the township school treasurer, whereas in Class I county school units each school board either elects one of its members to serve as treasurer or appoints someone, not a

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<sup>54</sup>This information, as well as the data appearing in Table 1, is taken from two sources, and it has been arranged in this form to indicate the slight change which has occurred in the organization of the Cook County school districts. The sources are:  
 County of Cook, Directory of Cook County Public Schools, 1962-1963, (Chicago, 1962).  
 County of Cook, Directory of Cook County Public Schools, 1963-1964, (Chicago, 1963).

member, to serve as treasurer.<sup>55</sup> In Class II county school units the township treasurer performs the treasurer's function for each and every school district within the township school district. In Class I county school units each school district has its own treasurer.

The functions of these treasurers is explained in The School Code of Illinois:

The township treasurer in Class II county school units or the school treasurer in Class I county school units shall be the only lawful custodian of all school funds and shall demand, receipt for and safely keep, according to law, all bonds, mortgages, notes, moneys, effects, books and papers belonging to any school district or township, as the case may be, which he serves as treasurer.<sup>56</sup>

The township treasurer in Class II county school units is the chief accounting officer for all school districts within that township, maintaining all required financial books and records for these districts. Moreover, he is obligated to keep the township loanable fund loaned at interest at a rate not less than four per cent per annum,<sup>57</sup> and he receives from the county superintendent the apportioned share of the state school fund and distributes this fund to the school districts within the township.<sup>58</sup>

School treasurers in Class I county school units perform

<sup>55</sup>Illinois, The School Code of Illinois, p. 63.

<sup>56</sup>Ibid., p. 64.

<sup>57</sup>Ibid., p. 64.

<sup>58</sup>Ibid., p. 18.

only two of the three functions described above: that of maintaining the required books and records for the school district and that of receiving the apportioned share of the state school fund distributed to the district by the county superintendent. The third function, that of keeping the township loanable fund loaned at interest, becomes the function of the township land commissioner for Class I county school units.<sup>59</sup>

Since this work is concerned only with the audit program of Cook County, there will be no further discussion of the Class I county school units or the school districts within such units, other than to state that each school district in both units is subject to the audit law for school districts which became effective on July 1, 1962. This audit law reads as follows:

Each school district shall, as of June 30 of each year, beginning with 1962, cause an audit of its accounts to be made by a person lawfully qualified to practice public accounting as regulated by "an Act to regulate the practice of public accounting and to repeal certain Acts therein named," approved July 22, 1943, as amended. Such audit shall include financial statements of the district applicable to the type of records required by other sections of this Act and in addition shall set forth the scope of audit and shall include the professional opinion signed by the auditor, or, if such an opinion is denied by the auditor, shall set forth the reasons for such denial. Each school district shall on or before October 15 of each year submit an original and one copy of such audit to the county superintendent of schools in the county having jurisdiction in which case the county superintendent of schools shall be relieved of responsibility in regard to the accounts of the school district. . . . The copy of the audit shall be forwarded by the county superintendent to the Superintendent of Public Instruction on or before November 15 of each year and shall be filed by the Superintendent of Public Instruc-

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<sup>59</sup>Ibid., p. 54.

tion.<sup>60</sup>

This audit law pertains to all "financial statements of the district applicable to the type of records required by other sections" of the school code. Chapter V of this study will present a discussion of the specific statements which have been subject to audit for fiscal years 1962-1963 and 1963-1964.

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<sup>60</sup>Ibid., p. 17.

## CHAPTER II

### HISTORICAL PERSPECTIVE

#### FINANCIAL ACCOUNTING FOR SCHOOLS

The publication of Handbook II: Financial Accounting for Local and State School Systems is a major landmark in the history of the efforts to achieve a standard and uniform accounting system for public schools. A persistent problem through the years was a lack of uniformity in the accounting function and in the reporting of information by school systems.

Nearly one hundred years ago the need for some uniformity in school financial accounting was recognized. Repeatedly since that time, individuals, committees formed by the NEA, the Association of School Business Officials, and the U. S. Office of Education have directed efforts toward achieving more uniformity in public school accounting.<sup>1</sup>

As public education developed, all school systems were compelled to establish some form of financial record-keeping. Local school units, lacking direction from other sources, set up accounting systems which would serve their own purposes. It was not until 1899 that a committee of the National Education Association made some broad general recommendations for uniformity in financial accounting by proposing that "school disbursements be divided into the three broad areas of current expenditures, capital expendi-

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<sup>1</sup>Chester W. Harris and Marie W. Liba, Encyclopedia of Educational Research, (New York: MacMillan Company, 1960), p. 165.



tures, and other expenditures."<sup>2</sup>

In 1909 the first National Committee on Uniform Records and Reports for Schools was organized. This committee was made up of representatives of both governmental agencies and educational organizations. As a result of the work of this committee, Circular 204: Financial Accounting for Public Schools was issued by the U. S. Bureau of Education in 1913. This committee "developed the principal expenditure classifications which, with some modification, still serve as the basis for most accounting systems."<sup>3</sup>

Other individual and local efforts were made to upgrade the financial accounting for municipalities and school systems, but the most significant of all of these was the work of Hiram C. Case, entitled: Handbook of Instructions for Recording Disbursements for School Purposes, published in 1916. This handbook was the result of the cooperative efforts of the U. S. Office of Education, Teachers' College Columbia University, and the Association of School Business Officials of the United States and Canada. It set up a well-organized system for classifying and recording school expenditures: general control, instructional service, operation of school plant, maintenance of school plant, fixed charges, capital outlay, auxiliary services, and sundry activities.<sup>4</sup>

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<sup>2</sup>Henry H. Linn, (ed.), School Business Administration, (New York: The Ronald Press, 1956), p. 178.

<sup>3</sup>Harris and Liba, p. 165.

<sup>4</sup>Roe L. Johns and Edgar L. Morphet, p. 455.

In the 1920's work was begun by various individuals to develop complete systems of budgeting, accounting, and reporting on school affairs. The aim of each of these efforts was to develop systems of accounting which would render possible the statistical comparisons of financial data through uniform budgeting, accounting, and reporting procedures.

N. L. Engelhardt and Fred Engelhardt set up detailed accounting forms and records in their text, Public School Business Administration, published in 1927. The sample forms exemplified the typical accounting entries, and illustrations of various financial statements for schools presented a complete accounting system which could be adapted to school districts of any size. Moreover, the authors presented a very strong case for the major role served by the financial accounting function in the educational program of a school system and stressed the importance of accurate and complete record keeping as the basis for sound educational planning:

The financial accounting and the educational aspects of a local school system are closely interrelated. This becomes more and more evident when the functions of accounting are clearly understood. The educational service required of a school system must be related to the managerial plans for providing the service and to the funds available. Service performances must be checked up with the expenditures made. An educational program cannot be conceived without its financial plan, and the necessary machinery for its administration cannot be properly initiated and kept in motion without adequate accounting control.

Plans cannot be developed except on the basis of the facts of past performance and present conditions. Such facts have their source in the accounting records. The statistical analyses of these make possible, within certain limits of accuracy, the anticipation of future needs. Financial control, accounting control, and administrative control are so inextricably inter-

woven that the ultimate success of the system depends upon how clearly and fully the accounting procedures are developed and how well the financial reports meet administrative need.<sup>5</sup>

In this same year Arthur B. Moehlman proposed an extensive budgeting and accounting system in his text, Public School Finance. Both the budgeting and accounting activities were patterned after the coding system proposed by the U. S. Bureau of Education both as to coding numbers and definitions. In the foreword to the work he stressed the inherent values of his system:

The technique developed and recommended for use is extremely practical. It has been tried experimentally under field conditions over a period of seven years, and is therefore free from impractical or expensive procedure. The recent legal adoption of the entire accounting and budget program by the State of Michigan insures its flexibility, practicality, and simplicity. It may serve as a basis for procedure in other states.<sup>6</sup>

As far back as 1933, the American Council on Education recognized the need for improved financial accounting methods. The lack of research in the field of financial accounting and reporting was described as the most significant factor for the inefficiency then so widely prevalent in the accounting function.

It would be of little avail to have well-qualified clerks to keep the financial accounts of the schools if the clerks were required to use, or did use, inefficient accounting systems and procedures. There is considerable criticism of school financial accounting on this score. It is generally believed

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<sup>5</sup>N. L. Engelhardt and Fred Engelhardt, Public School Business Administration, (New York: Bureau of Publications, Teachers' College, Columbia University, 1927), p. 220.

<sup>6</sup>Arthur B. Moehlman, Public School Finance, (Chicago: Rand McNally and Company, 1927), p. xvii.

that the financial accounting systems and procedures used by the schools are inefficient, but wherein they are inefficient has not been ascertained in a scholarly and exhaustive manner. In fact, we do not yet know with any degree of definiteness the status of school financial accounting; and without knowledge of present practice we cannot surely indicate the needed developments.<sup>7</sup>

In light of this finding, the Council stressed the cooperative research of a cumulative nature which would tend to upgrade financial accounting and reporting. These recommendations are noteworthy in the light of the lag of nearly twenty years before the U. S. Office of Education sponsored this form of cooperative endeavor which has resulted in the publication of the four handbooks of the state educational records and reports series, referred to in Chapter I.

It is suggested, therefore, that studies be made on school financial reports and statements, and that recommendations be made for revision where revision is needed. A large portion of such research should be of a cumulative nature. It would perhaps be advisable to organize a committee of state superintendents, local superintendents, and state auditing and accounting officers to appraise the research, to recommend policies and procedures, and to devise ways and means of placing any recommendations in operation.<sup>8</sup>

In 1934 John Guy Fowlkes devised a system of school accounting which had certain "distinctive qualities which differentiate it from other works in this field."<sup>9</sup> Although he enumerated

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<sup>7</sup>The American Council on Education, Research Problems in School Finance, The National Survey of School Finance, U. S. Dept. of the Interior, (New York: Teachers' College, Columbia University, 1933), p. 106.

<sup>8</sup>Ibid., p. 110.

<sup>9</sup>John Guy Fowlkes, Principles and Practices of Financial Accounting for Schools, (Milwaukee: E. M. Hale and Company, 1934), p. v.

twelve "distinctive qualities," only those specific characteristics of his system are presented which are indicative of the advances made over previous accounting and budgeting systems. The following characteristics represent his attempt to correct some of the major shortcomings in school accounting as then practiced:

1. Most of the volume has been mimeographed and all forms have been blueprinted and used experimentally for three years both in the classroom and in the field.

2. A general ledger which offers a simple and practical "control accounting" device for small, as well as large, schools.

3. Provision for accounting for both expenditures and disbursements rather than providing for the accounting for expenditures only as is commonly the case in other works on school accounting.

4. Several mechanical devices such as size of ledger pages, numbered rows and columns, colors of ink used in ruling, ruling arrangements, and indexing which facilitates the use of ledger forms.

5. Provisions for the maximum segregation of expenditures by units of school organization and type of service rendered with a minimum of coding.

6. Conformity to the recommendations of the city superintendents' annual financial report to the Office of Education in the ruling of ledger sheets so that both federal and state reports may be made largely by drawing off footings from the cash receipts ledger and the various distribution ledgers.<sup>10</sup>

In summarizing the status of financial accounting in schools as of 1934, John Guy Fowlkes painted a picture which was characteristic of school accounting for the intervening twenty years or more. The amount of effort expended to achieve uniformity in the accounting function at all levels was rewarded with inade-

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<sup>10</sup> ibid., pp. v-vi.

quate results. Even within certain states, school districts of similar size and organization had accounting systems and reporting standards with no common characteristics, thereby making valid financial comparisons impossible. He summarized his findings in this manner:

It is obvious that with the exception of a very small group of the larger cities it is impossible to make reliable studies of school costs, budgetary procedure, and other similar investigations of school systems scattered throughout the country.

Such a condition imposes a serious handicap upon local school administrators within their own communities. Likewise, the inadequacy and uncertainty of financial statistics concerning public schools make possible many broadside indictments by enemies of public education which, while largely untrue, nevertheless leave the professional educator impotent to answer. The need for sound financial accounting for schools is being considered more keenly than ever before and the day should soon come when school accounting is conducted in a scientific fashion.<sup>11</sup>

Through the years the various states have prepared financial accounting manuals or financial record forms in an effort to achieve state-wide uniformity in the accounting function. Typical of the research which was conducted at the state level was that of Harlan D. Beem who, in 1954, reviewed the status of financial accounting for schools in the State of Illinois and summarized his findings with these remarks:

These few illustrations point out the need for a general study of school accounting practices, not to safeguard the funds - present requirements seem ample for that - but to provide school boards with more dependable information for planning.<sup>12</sup>

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<sup>11</sup>Ibid., pp. 226-27.

<sup>12</sup>Harlan D. Beem, "Unsolved Accounting Problems," Illinois School Board Journal, XXI (July-August, 1954), p. 32.

Despite these efforts, studies conducted as recently as 1956 offered these conclusions which point up a period of nearly forty years of little, if any, progress in school accounting:

1. Despite constant attacks, valid criticisms, and the expenditures of large sums of money . . . no one in four decades has succeeded in upsetting the original [that of the Case Handbook] and largely functional classification of school expenditures with a more consistent system of accounts.

2. It is believed by those engaged in educational research that little, if any, progress has been made in raising the standards in school accounting in a quarter century despite the protests of many writers that present accounting systems are neither uniform nor adequate.

3. Observation leads to the conclusion that school systems in increasing numbers are only now coming to feel the need for the adoption of better methods of accounting and to appreciate the values in a commonly accepted or uniform system of cost accounts to the degree that they are willing to expend time and money to acquire them.<sup>13</sup>

William E. Rosenstengel and Jefferson N. Eastmond, writing immediately prior to the publication of Handbook II: Financial Accounting for Local and State School Systems, urged that state reports be simple and called for "only those data which are essential for securing a true picture of the entire state and at the same time meeting the requirements of the State laws."<sup>14</sup> In referring to the cooperative program of the Chief State School Officers and the U. S. Office of Education which was to result in the four handbooks of financial accounting, the authors looked for greater uniformity and more comparable statistical data as end-products of this major undertaking.

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<sup>13</sup>Linn, p. 179.

<sup>14</sup>William E. Rosenstengel and Jefferson N. Eastmond, School Finance, (New York: The Ronald Press Company, 1957), p. 252-53.

In their 1960 study, Paul R. Mort, Walter C. Reusser, and John W. Polley spoke of the work which remained to be done within the states to implement the suggestions of the first two handbooks:

There is need for further development among the states of such accounting systems that incorporate enough common features to make reporting to the U. S. Office of Education complete and uniform. State report forms should be geared to the system of financial accounting required from all local units. If any modification must be made for small school systems, it should be by decreasing the amount of detail in the subdivisions of the accounting classification, without changing the classification. At least the basic items of receipts and expenditures should be the same.<sup>15</sup>

Roe L. Johns and Edgar L. Morphet have outlined these specific guides for the implementation of a uniform financial accounting system within the states:

The state should prescribe the minimum accounts which must be kept by all districts. It should also publish manuals for classifying receipts and expenditures and guides for recording receipts and expenditures. Local school districts should have the authority to establish additional accounts as their needs require, but uniform procedures should be followed in keeping required accounts.

States should exercise great care in establishing uniform minimum standards for financial accounting. Each state may like to consider itself unique. . . . The safest policy for a state to use in establishing minimum requirements for basic accounts is to follow the recommendations of the U. S. Office of Education insofar as practicable. It is only by this policy that substantial uniformity in school financial accounting among the states can be achieved. When a state prescribes minimum standards for basic accounts which vary from national practice, the variations should not be so great as to make it impossible to reconcile the financial statistics of that state with the statistics of other states.<sup>16</sup>

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<sup>15</sup>Mort, Reusser, and Polley, p. 495.

<sup>16</sup>Johns and Morphet, p. 476.



The present status of financial accounting for schools in the State of Illinois, indicative of the progress made in the various states, since the publication of Handbook II: Financial Accounting for Local and State School Systems, points up the efforts made by the state departments of education to implement the suggestions made by the U. S. Office of Education in its various handbooks of the state educational records and reports series.

A study, initiated at this time, designed to determine the present status of financial accounting in the fifty states might well serve to clarify the efficacy of the work of the committees responsible for the publication of these four handbooks and, more importantly, to point up the necessary steps to achieve the uniformity and standardization in the total complex of the school accounting function.

#### AUDITING OF SCHOOL ACCOUNTS

The verification of financial statements and the preparation of audit reports grew naturally and logically from the development of a complex business structure at the close of the nineteenth century. Individuals, corporations, banks, creditors, and finally the federal government began to rely more and more on the accuracy of financial statements. In charting the growth of the auditing function, Roy A. Foulke lists four major causes of the increased emphasis on verified financial reports:

1. Commercial banking institutions, and later mercantile creditors, began to insist upon receiving exact financial statements as the basis for the extension of credit.

2. Investment bankers needed the verification of earnings from a qualified source outside the management as a basis for pricing and selling securities to the avid public.

3. The sixteenth amendment to the Federal Constitution became effective in 1913 and Congress was empowered to "lay and collect taxes on income, from whatever sources derived." Officers of corporations who had never before realized the necessity for having a correct system of accounting now found themselves compelled to prepare statements of income and expenditures.

4. The passage of the Revenue Act of March 3, 1917, containing the first excess-profits tax, finally heightened this emphasis as nothing else could possibly have done.<sup>17</sup>

T. A. Wise explains the steadily expanding influence of the auditor as deriving from two sources:

(1) the increasing complexity of the modern industrial world, and (2) its greater emphasis on accountability, meaning the need of one man to refer his actions to judgment by standards he shares with other men. The classical nineteenth-century entrepreneur had little need for an accountant in the modern sense; he was accountable to the law of the land and his own conscience, but beyond that he was the sole judge of whether his performance was meritorious. A very different situation is that of professional managers controlling the property of unknown stockholders, dealing with institutionalized creditors, and entrusted with a host of social tasks from the generation of taxable revenues to the production of essential weapons.<sup>18</sup>

In 1917, the American Institute of Certified Public Accountants prepared "a memorandum on balance-sheet audits" for the Federal Trade Commission which, in turn, reprinted and published

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<sup>17</sup>Roy A. Foulke, Practical Financial Statement Analysis, (New York: McGraw-Hill Book Company, 1961), p. 23.

<sup>18</sup>T. A. Wise, "The Auditors Have Arrived," Fortune, XLIII (November, 1960), p. 152.

this memorandum under the title of Uniform Accounting: A Tentative Proposal Submitted by the Federal Reserve Board. In 1918 this same pamphlet was reprinted under the title of Approved Methods for the Preparation of Balance-Sheet Statements, with no changes in the content. Two revisions were subsequently issued: (1) in 1929, under the title of Verification of Financial Statements, and (2) in 1936, under the title of Examination of Financial Statements by Independent Public Accountants. This succession of titles is illustrative of "what the experience of three decades of auditing has shown to be practicable and impracticable."<sup>19</sup>

The earliest ambition for "uniform accounting" was quickly realized to be unattainable as an objective, and the same listed procedures were related instead to "balance-sheet statements;" then, with the gradually greater emphasis on current earnings, the earlier restrictive consideration of the balance-sheet was superseded in the 1929 appellation, Verification of Financial Statements, by according the income account at least equal status. When in turn the 1936 revision was undertaken, there had culminated a growing realization that with the complexity of modern business and the need of the accountant's reliance on a system of carefully devised testing, for his justification in accepting the representations of the examinee, such a word as "verification" was not an accurate portrayal of the accountant's function. The bulletin of that year accordingly was stated to cover an "examination" of the financial statements.<sup>20</sup>

Since 1936, the American Institute of Certified Public Accountants has issued procedural bulletins applicable to specific forms of business activities which guide the accountant in performing the auditing function. Unfortunately, the audit of a local

<sup>19</sup>Generally Accepted Auditing Standards, pp. 7-8.

<sup>20</sup>Ibid., p. 8.

school district has not yet received the attention of the Institute.

This brief historical description of the growth and changes in the auditing profession is presented as a background for the discussion of the development of the audit function within the school systems.

Very little had been done toward studying the audit function within school systems prior to 1927 when M. L. Engelhardt and Fred Engelhardt concluded as the result of their study of the status of school audits that there were many different practices followed in the auditing of the affairs of local school systems. Some of their more important conclusions were these:

1. The frequency of audits varies from quarterly to once every four years.
2. Some states do not require an audit of school districts.
3. Some states require publication of the audit report, whereas others demand filing of the report with a designated official.
4. Auditors were appointed: (1) by school boards from their own members; (2) by judges of local courts, or (3) by state officials. In some cases the auditor of the local governmental unit became the auditor of the school district ex-officio.<sup>21</sup>

In addition to these findings, the authors offered specific guidelines which should be followed in the entire auditing function. Many of these suggestions are still being proposed by writers in the field of school finance concerned with the over-all

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<sup>21</sup>Engelhardt and Engelhardt, pp. 841-42.

improvement of school auditing. Each guide is indicative of the major shortcomings which the authors found in their study. Some of their more important suggestions were:

1. The auditing of school accounts requires a familiarity with school accounting procedure as well as educational administration. . . . The true financial condition of the district may be concealed from an expert accountant who is not familiar with the fiscal management of public schools.

2. Unless the work is done by an unprejudiced and reliable accounting firm familiar with public school affairs, the results may not reflect true conditions.

3. The audit must show clearly the financial conditions of the district, point out the difficulties, and suggest possible remedial measures.

4. A detailed audit should be made annually at the close of the fiscal year.

5. The annual report should contain but one final and complete financial report in the form conventionally accepted for reporting educational financial affairs.<sup>22</sup>

In 1933 the American Council on Education, as part of the National Survey of School Finance, discussed the issue of school financial auditing and indicated five specific topics on which research was needed:

1. What are the laws of each state pertaining to the auditing of the financial accounts and business procedures of boards of education? For example, what state or local department does the auditing or inspecting? How often? Who pays for it? What are the conditions under which special audits are made?

2. What are the characteristics of the audits or inspections which are made? What authority has the auditor or inspector? To what extent, if any, do the auditors or inspectors overstep their authority of good administration practices in insisting upon school policies and practices which school officials

<sup>22</sup>Ibid., p. 845.

do not favor?

3. What use is being made of these audits locally and by the state?

4. What type of audit report is required from, or is being made by, the auditor?

5. What changes, is any, should be made in the auditing procedure to make it more efficient? What changes, if any, are needed in the laws?<sup>23</sup>

Research efforts in the ensuing years were concerned with these and other questions related to the auditing of school accounts. Gordon N. Arlett<sup>24</sup> summarized the findings of the most significant of these efforts. Five studies have been chosen for brief comment for two reasons: (1) their applicability to the specific questions asked by the American Council on Education, and (2) their historical significance in improving the school accounting process.

Raymond G. Campbell's study in 1935 concluded that:

1. Regular independent audits must be made. Most authorities agree that the audit should be performed by competent authorities not directly concerned with the administration of public funds.

2. The annual audit should be made either by the state department of education or by competent accountants approved by

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<sup>23</sup>The American Council on Education, p. 111.

<sup>24</sup>Gordon N. Arlett, "The Annual Audit Program in California School Districts," (unpublished Ed. D. dissertation, University of California, Berkeley, 1962), pp. 23-39.

the department.

3. A complete written report of the audit and the findings should be filed in the office of the local board of education.

4. A comprehensive summary of the report should be published, and

5. Copies of audit summaries should be filed with the county superintendent of schools and the state department of education.<sup>25</sup>

In 1939 Charles K. Martin investigated the application of state requirements to control exerted on local school accounting systems. He contended that, to preserve local school control, state supervision should remain a minor rather than a major factor in the design of safeguards. He recommended that the state department of education furnish manuals and general directives for the guidance of local school administrators and that the local school board should be directly responsible for the external audit.<sup>26</sup>

In an article published in 1941 William E. Rosenstengel discussed the many advantages which result from the auditing of school accounts. He emphasized the assurance which an audit provides both to the public and to those entrusted with the custody of public monies. He stressed the use of the audit report as a

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<sup>25</sup>Ibid., p. 31; citing Raymond G. Campbell, "State Supervision and Regulation of Budgetary Procedures in Public School Systems," (unpublished Ph. D. dissertation, Columbia University, 1935).

<sup>26</sup>Ibid., p. 32, citing Charles K. Martin, "Control of School Accounting Exercised by State Requirements and Recommendations," (unpublished Ph. D. dissertation, Yale University, 1939).

public information vehicle. He concluded, further, that definite values are accrued from the expert advisory services provided by competent auditors in developing newer business practices and improved accounting systems.<sup>27</sup>

In 1949 Vaughn D. Seidel examined public school fund accounting practices and found little uniformity in audit practices either among the various states or among school districts in the State of California. It should be noted that the conclusions and recommendations of his study either have been incorporated into the recently adopted audit law of the State of Illinois or are being proposed by the Local Governmental Accounting Committee of the Illinois Society of Certified Public Accountants:

1. There should be a uniform accounting practice with minimum standards for auditing.
2. There should be sufficient legal requirements, adequately enforced, to assure a well-defined audit with minimum standards and a qualified auditor, to appraise the quality of reporting.
3. The audit should be an annual independent audit, in harmony with the best practices developed in the business world.
4. The authority and responsibility for the audit should be placed with the local school administration.
5. Internal auditing and a system of checks and controls

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<sup>27</sup>Ibid., p. 23, citing William E. Rosenstengel, "The Annual Financial Audit," The American School Board Journal, May, 1941, p. 42.



should be encouraged.

6. A penalty clause for non-compliance should become part of the audit law.

7. Proper legislation should be proposed to implement the requirements of an effective audit program.

8. A handbook should be prepared to serve as a guide to the auditor and to the administration of the local school unit.<sup>28</sup>

In 1954 Loyal V. Norman investigated the legal requirements of the various states as established by statute for the auditing of public school districts. He expressed concern over the inconsistencies in both the form of the audit legislation and the wide variance in agencies responsible for audits in the various state laws. He concluded that the appropriate state department of education should establish standards and procedures for the mandatory audit, but that the local district should be made responsible for the actual performance of the audit.

He recommended that state statutes should be adopted which would:

1. Require annual audits of local school accounts by competent auditors.

2. Recognize that public school auditing is a distinct and separate action from the auditing of other governmental units and should be done by different auditors.

3. Suggest or require that the school administrations make wide public use of the audit reports in public relations activities.

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<sup>28</sup> Ibid., p. 33, citing Vaughn D. Seidel, "Auditing Public School Funds in California," (unpublished Ed. D. dissertation, University of California, Berkeley, 1949).

4. Include provision for state departments of education to consolidate data from local reports and make an appropriate annual report.

5. Exclude from the auditor's examination curriculum matters, educational policies, and attendance records.

His study reported that most audit laws had these defects:

1. Provisions of the statute are too general.

2. The statute does not provide for a uniform audit of all districts within the state.

3. No stipulation is made with reference to qualifications which school auditors must possess, conditions governing their employment, nor the basis upon which they should be paid.

4. The school audit is silent regarding:

a. observance by school auditors of generally accepted auditing standards.

b. the furnishing of legal advice to school auditors, and

c. the requirements that school auditors must be independent.

5. The statute does not define the scope of the school audit.

6. No alternate agency or official has been designated to conduct the audit in the event of the failure to do so by the first named.

7. There is no provisions for the employment of school auditors on a written contractual basis with all points of agreement concerning the audit enumerated therein.

8. No reference is made to relationships between school auditors, their work, and the state department of education.

9. Specifications with reference to type of audit are vague and inadequate.

10. Necessary data have been omitted such as:

a. time the audit is to begin,

b. when and to whom a report of the audit is to be submitted.

c. when and in what manner the audit report is to be published.

11. Insufficient specification of what is to be included in the school audit report.<sup>29</sup>

A summary of the trends in the practices of auditing school funds adopted by the governments of the several states in the past fifteen years will indicate the increased attention given to the auditing function.

The information presented in Table 2 is designed to show these trends on a state by state basis. The data presented has been derived from five sources: the three studies of the U. S. Office of Education, in 1950,<sup>30</sup> 1954,<sup>31</sup> and 1958;<sup>32</sup> the study of Gordon N. Arlett in 1962;<sup>33</sup> and the questionnaire prepared and circulated to the State Departments of Education in October, 1964 by the writer of this paper. A copy of this questionnaire and a copy of the accompanying letter are presented in Appendix I, Correspon-

<sup>29</sup>Ibid., pp. 36-39, citing Loyal W. Norman, "Statutory Provisions for Public School Auditing in the United States," (unpublished Ed. D. dissertation, George Peabody Teacher's College, 1954).

<sup>30</sup>Edgar L. Morphet, Public School Finance Programs of the Forty-Eight States, U. S. Office of Education, (Washington: U. S. Government Printing Office, 1950).

<sup>31</sup>Clayton D. Hutchins and Albert R. Munse, Public School Finance Programs of the United States, U. S. Office of Education, (Washington: U. S. Government Printing Office, no date).

<sup>32</sup>Albert R. Munse and Eugene P. McLoone, Public School Finance Programs of the United States, 1957-1958, U. S. Office of Education, (Washington: U. S. Government Printing Office, 1960).

Table 2.-- Trends in state provisions for auditing public school financial accounting records, indicating number of states required to have school district audits, 1949 to 1964.

State	1949-1950			1953-1954			1957-1958			Oct., 1964		
	All	Some	None	All	Some	None	All	Some	None	All	Some	None
Ala.	x			x			x			x		
Ariz.			x			x	x			x		
Ark.	x			x			x			x		
Calif.			x	x			x			x		
Col.		x			x			x			x	
Conn.	x			x			x			x		
Del.	x			x			x			x		
Fla.	x			x			x			x		
Ga.	x			x			x			x		
Idaho	x			x			x			x		
Ill.			x			x			x	x		
Ind.	x			x			x			x		
Iowa		x			x			x			x	
Kans.			x			x			x		x	
Kent.	x			x			x			x		
La.	x			x			x			x		
Me.			x	x			x			x		
Md.	x			x			x			x		
Mass.	x			x			x			x		
Mich.			x	x			x			x		
Minn.			x			x			x		x	
Miss.			x			x	x			x		
Mo.			x		x		x			x		
Mont.		x			x		x			x		
Nebr.			x			x			x		x	
Nev.			x	x			x			x		
N. H.	x			x			x			x		
N. J.	x			x			x			x		
N. M.	x			x			x			x		
N. Y.	x			x			x			x		
N. C.	x			x			x			x		
N. D.		x			x			x			x	
Ohio	x			x			x			x		
Okla.	x			x			x			x		
Oreg.	x			x			x			x		
Penn.	x			x			x			x		
R. I.			x			x	x			x		
S. C.			x			x			x			x
S. D.		x			x			x			x	
Tenn.		x			x		x			x		
Tex.			x			x	x			x		
Utah	x			x			x			x		

Table 2.-- Continued

State	1949-1950			1953-1954			1957-1958			Oct., 1964		
	All	Some	None	All	Some	None	All	Some	None	All	Some	None
Vt.	x			x			x			x		
Va.	x			x			x			x		
Wash.	x			x			x			x		
W. V.	x			x			x			x		
Wisc.	x			x			x			x		
Wyo.	x			x			x			x		
Alaska	-	-	-	-	-	-	-	-	-		x	
Hawaii	-	-	-	-	-	-	-	-	-	x		
Totals	28	6	14	32	7	9	38	5	5	41	8	1

dence. Alaska and Hawaii are not listed alphabetically because these two states did not become states until 1959.

The 1950 study of the U. S. Office of Education, entitled: Public School Finance Programs of the Forty-Eight States, indicated that audits of local school financial accounts were required by State law for all school districts in twenty-eight states. In six other states such audits were required, but only for some of the school districts. No audits were required of the remaining fourteen states.<sup>33</sup>

The second study of the U. S. Office of Education for fiscal years 1953-1954, entitled: Public School Finance Programs of the United States, showed that the various State laws required audits for all school districts in thirty-two states. Seven states required the audit for only certain districts, and the remaining nine states required no audit. This study likewise stated:

<sup>33</sup> Morphet, Public School Finance Programs of the United States, p. 100.

Where audits of school finance records are not required annually, but are required at less frequent intervals or not at all, boards of education usually arrange for audits in addition to those required by law. Such additional audits may be requested as bases for the reconsideration of school finance policies or as evidence that the accounts are in excellent condition for acceptance by newly elected or appointed officials.<sup>34</sup>

The most recent study of the U. S. Office of Education relative to the public school finance programs showed a total of thirty-eight states requiring the school district audit of all districts. Five states required the audit of certain districts, and five states had no specific audit requirements.<sup>35</sup>

At this writing, forty-one states require the school district audit of all districts, eight states - Alaska, Colorado, Iowa, Minnesota, Nebraska, North Dakota, South Dakota, and Tennessee - require the audit of certain districts, and one state, South Carolina, has no audit requirements.

Table 3 presents information on the status of the school audit law for the various states. It indicates in column 2 the frequency of the mandatory audit: annually, biennially, or less frequently. Column 3 indicates the state, municipal, or other local agency responsible for the performance of the audit service. Column 4 supplies the requirements of the individual practitioner or accounting firm who, according to State law, is authorized to perform the audit function.

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<sup>34</sup>Hutchins and Munse, pp. 53-54.

<sup>35</sup>Munse and McLoone, p. 66.

Table 3.--Present status of the school audit law for the various states, indicating the frequency of audit, the governmental agency and/or the individual practitioner designated by law to perform the audit function, October, 1964.

State	Frequency	Governmental Agency	Practitioner(s) Legally Authorized
Alabama	Annually	Examiner	Public Accountant
Arizona	Annually	Auditor	Commercial Accountant
Arkansas	Annually	Comptroller	Commercial Accountant
California	Annually	Department of Finance	Certified Public Accountant
Colorado	Annually	Auditor	Public Accountant
Connecticut	Annually	Tax Commissioner	Public Accountant
Delaware	Annually	Auditor	- - -
Florida	Annually	Auditing Department	Public Accountant
Georgia	Annually	Auditing Department	- - -
Idaho	4 years	Auditor	Public Accountant
Illinois	Annually	- - -	Public Accountant
Indiana	2-4 years	Board of Accountants	- - -
Iowa	Annually	Auditor	Certified Public Accountant
Kansas	Annually	- - -	Licensed Municipal Public Accountants
Kentucky	Annually	Department of Education	- - -
Louisiana	Annually	Supervisor of Public Funds	- - -
Maine	Annually	Department of Audits	Public Accountant
Maryland	Annually	- - -	Approved Auditors
Massachusetts	Biennially	Bureau of Accountants	- - -
Michigan	Annually	- - -	Certified Public Accountants
Minnesota	Biennially	Public Examiner	Certified Public Accountant
Mississippi	Annually	Auditor	Public Accountant
Missouri	Biennially	Auditor	Public Accountant
Montana	Annually	Auditor	Commercial Accountant
			Certified Public Accountant
			Registered Municipal Accountant
Nebraska	Annually	- - -	Licensed Accountant

Table 3.--Continued.

State	Frequency	Governmental Agency	Practitioner(s) Legally Authorized
Nevada <sup>2</sup>	Biennially	Auditor	Certified Public Accountant
New Hampshire	Annually	Tax Commissioner	Public Accountant
New Jersey	Annually	Commissioner of Education	Public Accountant
New Mexico	Annually	Auditor	Certified Public Accountant
New York	Biennially	Department of Audit and Control	- - -
North Carolina	Annually	- - -	Public Accountant
North Dakota	Annually	Examiner	Public Accountant
Ohio	Biennially	Bureau of Inspection and Supervision	- - -
Oklahoma	Annually	Board of Education and Examiners	City and County Auditors
Oregon	Annually	- - -	Public Accountant
Pennsylvania	Annually	Department of Public Instruction	City or Township Auditors
Rhode Island	Annually	Bureau of Audits	Certified Public Accountant
South Carolina	- - -	- - -	- - -
South Dakota	Biennially	Controller	Certified Public Accountant
Tennessee	Annually	State Controller	Certified Public Accountant
Texas	Annually	- - -	Certified Public Accountant
Utah	Annually	Auditor	Licensed Accountant
Vermont	Annually	Auditor	Public Accountant
Virginia	Annually	Auditor	Licensed Accountant
Washington	Biennially	Auditor	Public Accountant
West Virginia	Annually	Tax Commissioner	- - -
Wisconsin	Annually	Auditor	Public Accountant
Wyoming	Annually	Examiner	- - -
Alaska	Annually	Auditor	Commercial Accountant
Hawaii	Annually	Department of Education	- - -

The sources of information for Table 3 are the same as those for Table 2, as shown on page 59 of this study.



The pattern which is gradually developing in the states is toward the annual audit program for all school districts. Of the forty-nine states requiring school audits, thirty-nine states require the annual audit; eight - Massachusetts, Minnesota, Missouri, Nevada, New York, Ohio, South Dakota, and Washington - require the biennial audit; and two states - Idaho and Indiana - require the audit less frequently.

There are important differences in the manner in which the state school audit programs are administered. In sixteen of the forty-nine states requiring the audit, the auditor is specifically assigned by statute his responsibility and authority to perform the audit. Twenty-five states designate the responsible state supervisory agency which is in charge of the audit function. In only five of these twenty-five states - Hawaii, Kentucky, New Jersey, Oklahoma, and Pennsylvania - the education agency of the state performs this function. The eight remaining states make no provision for a state agency to participate in the audit service.

In thirty-six of the forty-nine states requiring the audit, individual practitioners are designated by law to perform the school district audit. In the remaining thirteen states the law does not specify a state regulatory agency responsible for the service. Therefore, in each of the forty-nine states, either a state regulatory body or a legally authorized practitioner, or both, is prescribed by law. Twenty-eight states specify the state regulatory agency and the requirements of the individual practi-

tioner, thirteen states specify only the state regulatory agency, and eight states specify only the individual practitioner.

This summary of the trends in the school audit program has shown an ever-increasing number of states formulating laws designed to upgrade the business management function of the local school units. The major writers in the field of school finance speak in very strong terms of the growing need for even greater progress in the auditing service.

Their opinions are in general agreement, and, for the purpose of clarity, references will be made to their major works as regards: (1) the purpose of the school audit and (2) the standards of a school audit program.

(1) The purpose of the school audit:

Just as the purpose of auditing, in general, has changed over the years, as explained earlier in this chapter, so too has the purpose of the school audit. The present thinking of the authorities in the field of school finance is as follows:

(a) Henry H. Linn lists six objectives of the school audit program:

1. To safeguard money, property, and employees.
2. To determine the adequacy of the methods of internal check.
3. To maintain adherence to the established standards, policies, and procedures - financial, accounting, and operating.
4. To check condition and use of property and equipment, particularly from the standpoint of adequate return.

5. To maintain and coordinate internal auditing procedures with those of the public accountant.

6. To present accurate, complete, and unbiased statistics with respect to the educational system.<sup>36</sup>

(b). William E. Rosenstengel and Jefferson N. Eastmond list ten reasons for making an audit:

1. To give assurance of the correctness of all financial reports made at the close of the year.

2. To prevent fraud by the personnel's knowing that all accounts will be audited.

3. To detect any fraud which might have taken place during the past fiscal year.

4. To check on the consistency and accuracy of record-keeping.

5. To protect the employed personnel concerned with the business administration of the school.

6. To assure the general public that the personnel of the business department are honest.

7. To give the general public a feeling of security concerning the public school money.

8. To furnish unbiased financial information concerning the schools.

9. To assist the administration in installing newer business practices.

10. To secure expert professional services for improving the accounting system.<sup>37</sup>

(c). Arvid J. Burke speaks of the primary purpose of auditing in the schools as the verification of the financial status of

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<sup>36</sup>Linn, pp. 219-20.

<sup>37</sup>Rosenstengel and Eastmond, p. 270.

the operating unit, and, in addition, he lists these five purposes:

1. To provide data required by reports.
2. To safeguard funds from theft, waste, or misuse.
3. To promote budget control.
4. To provide, to management, needed information for decisions related to policy and operations, and
5. To provide information to the public and governing boards in the appraisal of management.<sup>38</sup>

(d). Roe L. Johns and Edger L. Morphet list the following as the principal purposes of the school audit program:

1. To protect employees and the board.
2. To furnish assurance to the public that school funds and property are being properly administered.
3. To furnish objective, complete, and accurate financial statistics on educational operations.
4. To determine the adequacy of internal checks.
5. To determine the adequacy of financial procedures and records.
6. To determine the adequacy of property records and inventory procedures.
7. To determine the adequacy of internal accounting procedures.
8. To assist in developing improved business administration and financial accounting procedures and policies.<sup>39</sup>

(e). Paul R. Mort, Walter C. Reusser, and John W. Polley regard the school audit as an appraisal of the financial records

<sup>38</sup>Burke, p. 46.

<sup>39</sup>Johns and Morphet, p. 485.

and financial management of a school district. Their statements concerning the extension of the purpose of the auditing function serve to summarize the change which has occurred over the years in the purpose of the school audit:

In recent decades there has been a significant change in the purpose for which audits are made. The early conception of an auditing was largely that of the detection of fraud and error. This has been extended to encompass ascertainment of the factual conditions of the school's finances. In business the audit would also seek to determine the earnings of the enterprise. The knowledge of financial conditions is of importance both to those interested in the enterprise and to those concerned directly with its management. In a school district the information made available by the audit serves as a basis for prudential management and for giving the general public a statement of the financial condition of the district.

To these purposes should be added the moral effect that an audit has upon those who handle the funds. There is likely to be less fraud and error when those in charge know that a periodic statement will be made public. Also the auditor is in a position to recommend practices and procedures that will result in more efficient administration and protection of funds.<sup>40</sup>

(2) The standards of a school audit program:

Closely allied to the purpose of an audit program are the values which are to be derived from it. The greater will be these values if certain basic standards characterize the program. The following authorities set high standards for the school audit, as would be evident from the purposes which they would expect the audit program to accomplish.

(a) Henry H. Linn would expect the auditor to recommend in his report those changes in financial practice which would ensure honest and accurate accounting. The greatest values of the audit

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<sup>40</sup>Mort, Reusser, and Polley, p. 485.

lie in keeping financial and accounting procedures from becoming lax and in improving the methods employed. The auditor should not be subject to the direction of any person whose accounts he audits, and his report should therefore be submitted to the board and not to the administration of the school unit. The independent auditor should be employed early in the fiscal year so as to permit him to become familiar with all financial operations, to permit a continuing audit, and to allow for interim reports. The audit report should include the following:

1. A letter of transmittal stating that the audit has been made in accordance with the terms of the contract and that officially required procedures have been followed.

2. A statement of the scope and the limitation of the audit.

3. A summary of the findings of the audit.

4. Recommendations for changes in the general accounting procedures and any other suggestions believed to be appropriate.

5. The auditor's certificate or the reason why the auditor is unable to furnish a certificate.

6. Financial statements and schedules.

7. Statistical tables and information as may be agreed upon.<sup>41</sup>

(b) William E. Rosenstengel and Jefferson N. Eastmond claim that an audit should develop many financial facts into a form which will make them useful to the administration and the board in making decisions to adopt, to retain, or to reject certain procedures or

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<sup>41</sup>Linn, p. 223.

programs. In addition, the audit should serve as a basis for helping to evaluate the entire school program.

Budgetary procedures should be improved as a result of a good school audit. The audit report should show in columnar array the actual expenditures along with anticipated expenditures and likewise actual receipts along with anticipated receipts. . . . A good audit will offer suggestions for the improvement of the accounting procedures. Auditors have opportunity to come in contact with the newer and more efficient practices used in private and other public business and can offer many suggestions which may be applied to business management of a school system.<sup>42</sup>

(c) Arvid J. Burke speaks of the assurance which an audit provides to those charged with the management of public monies, but he claims that "the more important aspect of auditing is the continuous improvement of business management." Careful to protect the managerial function of the local boards of education and their administrative staffs, he states:

Detail and routine easily can be substituted for management or leave little time for management. Where procedures and techniques become ends in themselves and management becomes enslaved to them, the making of wise expenditures is replaced by detailed accounting for unwise expenditures.<sup>43</sup>

He is equally concerned with the likelihood that the auditor might overstep the purpose for which the school board has employed him when he advises:

However, it must be recognized that auditors should only recommend desirable changes in policies, procedures, or practices; they should not determine policy or managerial methods.<sup>44</sup>

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<sup>42</sup>Rosenstengel and Eastmond, p. 271.

<sup>43</sup>Burke, p. 26.

<sup>44</sup>Ibid., p. 55.

(d) Roe L. Johns and Edgar L. Morphet express a similar viewpoint, although for a somewhat different reason:

Auditors should perform only the services they are employed to render. It is not the function of the auditor to criticize the educational policy or to recommend changes in the educational program. Auditors are not educational experts and they should not make recommendations in areas in which they have no competence or for which they have no responsibility.<sup>45</sup>

These authors likewise list the records and documents which the auditor should examine during the conduct of the audit. These are:

1. The minutes of the board of education.
2. The school budget.
3. Original documents relating to the authorization of expenditures.
4. Original documents relating to the making of payments.
5. Ledgers, registers, journals and other account books.
6. The internal accounts of individual schools if that is a part of his employment contract.
7. Tax collections and delinquencies.
8. All revenue and non-revenue receipt records.
9. Bank accounts.
10. Investments
11. Sinking funds, bond funds, capital accounts, trust funds, and all other special funds.
12. Deeds to property and property inventories including stores inventory.
13. Insurance policies.

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<sup>45</sup>Johns and Morphet, p. 501.



14. Cash not deposited in banks.

15. Surety bonds carried.<sup>46</sup>

(e) Paul R. Mort, Walter C. Reusser, and John W. Polley speak of their growing concern over the tendency of auditors, especially in cases where the auditor represents another state agency, to step beyond the limits of their responsibility and thereby infringe upon the powers of the local school boards.

Locally, school boards and school officials should be alert to challenge auditors' recommendations with respect to ultra vires acts. Presumably, the auditor's judgment on such matters is no better than that of other citizens.<sup>47</sup>

The authors urge strongly that the state auditing of schools be eliminated and that the school districts themselves be required to provide a commercial audit. It is their opinion that "the certified public accountant has generally been considered the most efficient, capable auditor of school accounts."<sup>48</sup>

This brief review of the trends in school auditing should point up the general agreement of those who have been concerned with the role of the audit in the business management activities of the local school districts.

The positive contributions of a sound audit program to the educational and managerial functions are generally agreed upon. The audit does enhance the confidence of the community in their schools

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<sup>46</sup>Ibid., p. 501.

<sup>47</sup>Mort, Reusser, and Polley, p. 488.

<sup>48</sup>Ibid., p. 488.

and does establish the controls which boards of education and the employees of school districts regard as essential to sound business practice.

Moreover, the positive control exerted by a constructive audit program should not be disregarded, for:

It is extremely important that citizens and taxpayers be assured that full value is received for every dollar spent and that school funds are protected and safeguarded against loss, misuse, carelessness, and mismanagement. This safeguard factor is particularly important at a time when public schools are asking for additional tax money, and when local, state, and federal taxes are already higher than at any previous time in our history.<sup>49</sup>

<sup>49</sup>Loyal V. Norman, "Scope, Conduct and Report of the School District Audit," The American School Board Journal, CXXVII (October, 1953), pp. 44-45.

## CHAPTER III

### REVIEW OF RELATED LITERATURE

The investigations and research studies which have been cited in the previous chapter pertaining to the historical setting of the major issues in school auditing have been included because of the authors' contributions to upgrading the auditing, and hence the accounting, function within the schools.

Aside from the works already referred to, two studies will be discussed here because of their recency and their applicability to the present study. In addition, this chapter will likewise present a review of the recent work of the Illinois Society of Certified Public Accountants, functioning through its two committees: the Committee on Standards of Reporting and the Local Governmental Accounting Committee.

#### ANNUAL AUDIT PROGRAMS IN CALIFORNIA SCHOOL DISTRICTS

Gordon N. Arlett's 1962 study of "The Annual Audit Programs in California School Districts" was designed to analyse and evaluate the audit program for school districts in California.<sup>1</sup> Ten years had passed since California school districts were required to

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<sup>1</sup>Gordon N. Arlett, "The Annual Audit Program in California School Districts," (unpublished Ed. D. dissertation, University of California, Berkeley, 1962).

submit an annual audit report to the State Department of Education. Specifically, this study attempted to: (1) analyze the procedures and records legally required by the audit to determine their appropriateness, (2) analyze deficiencies and exceptions cited by auditors in the annual audit reports, (3) ascertain the costs of the audit program, and (4) identify possible areas of duplication or unnecessary services.<sup>2</sup>

Two different approaches were made to the problem: first, a study was made of a five-year period of audit reports from a representative sampling of school districts; secondly, a study was made of the most recent year's audit reports from a ten per cent sampling of school districts, supplemented by a geographic sampling to ensure that at least one school district of the fifty-eight counties of California was included.<sup>3</sup>

From an analysis of the literature relating to school auditing, the author developed eight criteria as to what constituted the most desirable aspects of a school audit program. The suggested criteria were then related to the findings of his study pertaining, first, to the status of school audit practices in the various states, and, secondly, to audit practices in the State of California. The criteria which he proposed are indicative of such a thorough review of previous literature and of such a careful analysis

<sup>2</sup>Ibid., pp. 9-10.

<sup>3</sup>Ibid., p. 16.

of auditing practices in the several states that they are presented here in a rather detailed form.

1. Auditing of public school records and accounts is good administrative practice and should be required of all districts.
2. Best practice requires the establishment of one set of audit standards within a given state and perhaps ultimately among the states.
3. The post-audit should concern itself with all funds, public and quasi-public, under the control of the school district governing board.
4. Audits should be regularly conducted, usually annually, and should account for all transactions from the date of the last previous audit. Special audits should be performed when in the judgment of the governing board or a regulative agency such an examination is appropriate.
5. In addition to verifying the accuracy and propriety of accounts and transactions, audits should constructively suggest improvements in managerial operations and techniques, including the suggesting of appropriate instruction of personnel incident to the implementation of these suggested improvements.
6. Auditors should be selected from among qualified persons particularly skilled in educational agency accounting and school law. Eligibility standards need to be established and a substantial panel of eligibles recognized.
7. Audit reports should be submitted to the district administration and governing board, to the intermediate administrative agency (county) where applicable, as well as to the responsible state supervising departments or authorities.
8. The contract for audit services should specify conditions and terms of compensation, as well as restrictions to and requirements of the examination of the audit report.<sup>4</sup>

The findings of this study relative to its four purposes may be summarized as follows:

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<sup>4</sup>Ibid., pp. 60-64.

(1) to analyse the procedures and records legally required by the audit to determine their appropriateness:

In the examination of materials supplied by other states, a considerable number of auditor's manuals was reviewed. California's manuals provide similar assistance. While the practice is not standard, California is one of the states which does not supply standardized forms, reporting sheets, or ledger summary sheets. As a consequence the format of California audits does not facilitate audit comparisons or analysis.

The California audit program is found to be in general agreement with most audit standards as reported in the literature and as practiced in a substantial number of states. There appears to be a need to investigate all possible avenues that might produce an annual audit report more timely than the end of December.<sup>5</sup>

(2) to analyse deficiencies and exceptions cited by auditors in the annual audit reports:

The audit report reviews showed similar patterns of deficiencies. The absence or inadequacy of historical property records was noted in a preponderance (80 per cent) of the audits. Exception has been taken to accepting as a local school district matter the responsibility for this aspect of record maintenance. Exceptions pertaining to the management and records of cafeteria and student body activities indicated a need for increased attention in these areas by some districts.<sup>6</sup>

(3) to ascertain the costs of the audit program:

The cost of the school district audit program needs more interpretation than is provided by a tabular listing of cost data. The payment for audit services rendered implies full compliance with existing state minimum standards for acceptable audit reporting - nothing more. Because of unequal local conditions and differences in educational policy and philosophy among California school districts, comparison of true cost data is difficult, even between and among school units having common geography, administrative patterns of organization, and like number of pupils.

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<sup>5</sup>Ibid., pp. 79-80.

<sup>6</sup>Ibid., pp. 106-7.

In analyzing cost data, determining the quality of the audit service and the use of the audit product is not easily achieved. An audit performed to comply with a mandatory provision of a law may be inexpensive and at the same time be perfunctorily performed. The report, when completed, may have been prepared from secondary sources and have little to offer of greater usefulness. . . . There may be a need to relate the educational values of the program to the monetary costs, if the acceptance of the audit program is to continue to improve.<sup>7</sup>

(4) to identify possible areas of duplication of unnecessary services:

This study suggests the following:

a. Consolidation of the audit report with the Annual Financial Statement.

b. Establishment of a continuous post-audit.

c. Withdrawing of pre-auditing responsibilities from County officers for larger school districts.

d. Assigning to County officers the post-audit responsibility for small districts. . . .

e. Increased utilization of the professional competence of the licensed accountant, with special attention to advising the governing board.<sup>8</sup>

The following are recommendations for improving the annual audit program in California School Districts:

1. Representatives of the accounting profession, public school business officials, and appropriate agencies of the State government should study the advisability of adopting a more standard format for the annual audit report.

2. Formal contractual documents should be drawn up for the engagement of audit services by school districts to ensure adherence to minimum standards of professional performance, compensation, audit scope and form, and be specific about working

<sup>7</sup>Ibid., pp. 137-8.

<sup>8</sup>Ibid., pp. 117-8.

conditions and relationships.

3. The present Annual Financial Report should be audited and later combined with the complete audit report.

4. Extend the normal audit period for small school districts whose administrative activities are supervised by the County Superintendent of Schools to a period of more than one fiscal year. More frequent audits should not be precluded, however, should they be considered desirable by a governing board or a regulative agency.<sup>9</sup>

Of particular importance to this present study is the ~~state~~ statement of Gordon N. Arlett that California is one of the states which does not supply standardized forms, reporting sheets, or ledger summary sheets, and, as a consequence, "the format of California audits does not facilitate audit comparisons or analysis." Arlett made no attempt to demonstrate this finding, though he obviously had adequate reason to justify such a conclusion.<sup>10</sup>

In terms of this finding, he proposed as his first recommendation that "representatives of the accounting profession, public school business officials, and appropriate agencies of state government should study the advisability of adopting a more standard format for the annual audit report."<sup>11</sup>

#### ANALYSIS OF AUDIT REPORTS IN LOS ANGELES COUNTY, CALIFORNIA

Robert W. Zondler's 1962 study was concerned with "An Ana-

<sup>9</sup>Ibid., pp. 148-9.

<sup>10</sup>Ibid., p. 79.

<sup>11</sup>Ibid., p. 148.



lysis of Audit Reports in Los Angeles County, California."<sup>12</sup> It proposed to determine the auditing practices of certain Los Angeles County school districts as related to state legislation affecting the auditing of school funds.

The study was limited to selected school districts in Los Angeles County of over 1,000 pupils in average daily attendance. However, Los Angeles City School District was not included since its size causes it to be too unique. The study was also limited to the evaluation and examination of annual external audit reports for fiscal year ended June 30, 1961.

After reviewing the legal requirements which affect the auditing of public school funds and the changes in the California school audit law since its adoption in 1951, the author set up certain criteria for the audit report. These criteria were based on recommendations made by Vaughn D. Seidel in his 1949 study entitled "Auditing Public School Funds in California." The criteria, as stated by the author, were these:

1. Letter of transmittal
2. Statement of scope
3. An opinion or disclaimer of opinion
4. Evidence of a budget control check
5. Evidence of cash verification
6. Inclusion of various financial statements
7. Inclusion of statistical table
8. Recommendations.<sup>13</sup>

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<sup>12</sup>Robert W. Zondler, "An Analysis of Audit Reports in Los Angeles County, California, (unpublished M. S. thesis, The University of Southern California, 1962).

<sup>13</sup>Ibid., p. 46.

In addition, the writer set up these three criteria: (1) that the report should be written in an understandable manner; (2) that the report should be submitted as promptly as possible to ensure its usefulness; and (3) that the auditor should be available to the district to explain recommendations and findings.

The seventy-six audit reports which were reviewed showed the following: all seventy-six contained a statement of the scope of the audit and the auditor's opinion; seventy-five reports presented a statement of operations; seventy-four contained a balance sheet; sixty-eight presented evidence that cash had been verified; sixty-three made reference to a check of the budget control system; sixty-one commented on certain transactions and accounting procedures; thirty-nine indicated some recommendations; and thirty-one presented some data in statistical form.<sup>14</sup>

The study of the promptness in filing the audit reports for the seventy-six school districts indicated that, although school districts were allowed six months from the close of the fiscal year to file the audit report, five districts had submitted their report in the first three months; twenty in the fourth month; twenty-three in the fifth month, twenty-five in the sixth month; and three were submitted after the deadline date.<sup>15</sup>

No information was presented relative to the degree of un-

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<sup>14</sup>Ibid., p. 40.

<sup>15</sup>Ibid., p. 42.

derstanding inherent in the audit reports; nor was any data discussed relative to the availability of the auditor to explain recommendations and findings.

The final section of the study was reserved for a discussion on the costs involved in the annual school district audit. The audits of the Los Angeles County school districts cost nineteen districts no more than \$1,000; thirty-four districts paid more than \$1,000 but no more than \$2,000; fourteen paid more than \$2,000 but no more than \$3,000; four paid more than \$3,000 but no more than \$4,000; and five paid more than \$4,000. The ratio of cost of audits to current expense of education followed the statewide average with the great majority of districts spending .04 per cent to .06 per cent of their current expense of education for the required audit. However, there appeared to be a wide variation in the costs of the audit to school districts of comparable size and type, without any significant relationship between the amount paid and the quality of the written report.<sup>16</sup>

The author listed the following as some of the most significant weaknesses observed in the examination of the audit reports of Los Angeles County:

1. The large number of reports with no recommendations,
2. The routine and minor nature of many of the recommendations that were included in the reports,
3. The absence of statistical tables from most of the reports examined, and

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<sup>16</sup>Ibid., pp. 51-53.

4. The excessive length of time between the closing of the books and records and the submission of the audit report.<sup>17</sup>

Five recommendations were proposed as the result of this study:

1. That the State Department of Finance continue its leadership in the audit program with increasing emphasis placed on:

a. Inclusion of recommendations for the improvement of the business procedures and forms.

b. Inclusion of statistical tables.

c. Prompt submission of the reports to ensure the greatest effectiveness of the recommendations.

2. That classes be re-established, possibly in the universities, on the laws and statutes applicable in an audit of school funds, with the future possibility of special classification for auditors having completed such a course.

3. That the scope of the annual audit be contracted to limit the examinations, on a biennial basis, to the minimum and to limit the auditor's submission to a statement of the limited scope and his opinion.

4. That the scope and required content of the audit and the audit report on an alternate biennial basis, with the emphasis of the audit on recommendations and comparative statistics, be expended.

5. That greater use be made of the audit report in the field of public relations by publishing an edited version of the report in the local newspaper.<sup>18</sup>

Zondler's study of the content of the audit reports which he reviewed was concerned only with the number of school district audit reports which contained information relative to the eight criteria of an audit report indicated above. No information was presented as to the quality of the auditors' presentations nor were

<sup>17</sup>Ibid., p. 66.

<sup>18</sup>Ibid., pp. 67-68.

the differences of such presentations analysed or discussed, either in terms of the eight criteria or in terms of the over-all format of the individual audit reports.

#### A REVIEW OF SCHOOL DISTRICT AUDIT REPORTS, STATE OF ILLINOIS

At the request of the Superintendent of Public Instruction, State of Illinois, the Committee on Standards of Reporting of the Illinois Society of Certified Public Accountants undertook a review of audit reports of school districts in the State of Illinois for the fiscal year ended June 30, 1962. This review was designed to determine the compliance with standards of reporting as enunciated by the American Institute of Certified Public Accountants and with regulations pertaining to the issuance of such reports under the provisions of state law.<sup>19</sup>

Twenty-seven members of the Illinois Society, experienced in the audit of governmental subdivisions, particularly school districts, reviewed a total of 222 audit reports. These reports comprised a wide geographic representation of the approximately 1500 reports filed for the year. They included at least one report of each accounting firm or practitioner involved in the audit of school districts in Illinois during the year under review.

The check-list which was developed for the use of the reviewers is reproduced in Appendix II. This check-list indicates the compliance or non-compliance of the 222 reports on each of the

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<sup>19</sup>Letter from Harry I. Grossman, p. 1.

thirty-four specific criteria selected by the committee.

When the general review of the 222 reports was completed, a special committee of three supervising reviewers was appointed to assimilate and summarize the findings. The report of this special committee follows:

1. A substantial number of the reports reviewed in the test reveal a failure to comply with some of the reporting standards although relatively few reveal noncompliance with all of the reporting standards.

2. Aside from the matter of generally accepted standards of reporting, a number of reports reviewed appeared to lack information required to be presented under the rules and regulations of your [the Superintendent of Public Instruction] office.

3. A number of reports failed to present other information which is deemed important to the officials responsible for the administration of the financial affairs of school districts.

4. The scope and style of the reports varied to such a degree as to pose a considerable review problem for any authority who may be charged with the responsibility of appraising the quality of reports against any set of standards recognized by your [the Superintendent of Public Instruction] office as a proper instrument of evaluation.

5. In a few cases we observed that audit reports were issued by persons not qualified to render opinions on financial statements under the laws of this State.<sup>20</sup>

It should be noted that a review of the check-list used in the Society's study fails to indicate any specific questions which are designed to justify the fourth finding. It is for this precise reason that this present study is concerned with the uniformity or lack of uniformity in form, scope, and content of audit reports

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<sup>20</sup>Ibid., p. 4.

for fiscal years 1962-1963 and 1963-1964.

The Committee on Standards of Reporting included the following recommendations in the report of their study to the Superintendent of Public Instruction:

1. That the findings of this report be disseminated among public accountants authorized to engage in the audits of school districts in the State of Illinois and among members at large of the Illinois Society of CPA's.

2. That the audit instructions for school districts in Illinois issued out of the office of the Superintendent of Public Instruction be revised to include information, guidelines and requirements designed to promote compliance with reporting standards and uniformity in the presentation of data deemed essential for the purposes of school district officials and the Superintendent of Public Instruction.

3. That a model report form be developed as a guide available to school district auditors in achieving the reporting objectives sought by the Superintendent of Public Instruction. (Such a suggested model report is presently being drafted by the Illinois Society Committee on Local Governmental Accounting.)

4. That there be added to the staff of the Superintendent of Public Instruction one, or more, certified public accountants knowledgeable and experienced in the matter of school district auditing who would be responsible for administering a program of continuous review of school district audit reports to determine compliance with the law, professional standards, and the rules of your [the Superintendent of Public Instruction] office pertaining thereto.<sup>21</sup>

#### AUDIT GUIDELINES AND MODEL AUDIT REPORTS

In compliance with the third recommendation, the Illinois Society of Certified Public Accountants circulated to its members on May 27, 1964 the drafts of the audit guidelines for Illinois

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<sup>21</sup>Ibid., pp. 4-5.

school districts and of the model audit reports both for the cash as well as the accrual basis of accounting. The cover letter accompanying these drafts, which appears in Appendix III, included these important remarks:

It should, of course, be recognized that these guidelines and statements are only guides and that of necessity individual judgment will be required in individual cases. . . . The Committee would welcome your comments relative to experience in using the attached drafts and your suggestions for improvement. Our present thinking is that a final draft will be prepared in the future giving consideration to comments received.<sup>22</sup>

Since these drafts of the audit guidelines and the model audit reports were received by members of the Society prior to the close of the fiscal year ended June 30, 1964, school district auditors will have had the opportunity of reviewing and implementing suggestions contained therein prior to the completion of the audit reports for fiscal year ended June 30, 1964.

It is necessary to stress, once again, the tentative nature of these drafts. In forwarding these drafts to the writer of this paper, the Executive Secretary of the Illinois Society of Certified Public Accountants wrote:

We are glad to enclose a copy of our letter of December 18, 1963 to Superintendent Ray Page and a copy of our audit guidelines and model reports for school districts. I must caution you that the latter are wholly tentative first drafts and that we have limited distribution of them to our own members, with the request that our members forward to us any suggestions they have for improvement. . . . I assume that any quotation which you might make in your dissertation would be properly annotated to indicate the tentative draft status of

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<sup>22</sup>Letter from Robert L. Coker, p. 1.



these reports at this time.<sup>23</sup>

The three distinct drafts which were prepared by the Local Governmental Accounting Committee of the Illinois Society are entitled: (1) "Audit Guidelines of Financial Statements of Illinois School Districts," (2) "Illinois School District No. 100, Audit Report," for the cash basis of accounting, and (3) "Illinois School District No. 100, Audit Report," for the accrual basis of accounting.

The "Audit Guidelines of Financial Statements of Illinois School Districts" outlines the more important and typical audit procedures which an independent auditor would undertake in the conduct of a school district audit within the State of Illinois.<sup>24</sup>

For each account which would be maintained by the school district, the internal controls which should characterize the stewardship function are reviewed. Specific questions are asked of the auditor to assure himself that an adequate appraisal of the internal controls for each account has been made. The recommended audit procedures are then listed for each account. The accounts which are

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<sup>23</sup>Letter from Jeannette M. Conhrane, Executive Secretary, Illinois Society of Certified Public Accountants, to Patrick F. Ahern, August 10, 1964, p. 1. This letter is reproduced in Appendix I.

<sup>24</sup>Illinois Society of Certified Public Accountants, "Audit Guidelines of Financial Statements of Illinois School Districts," May, 1964.

discussed are these: cash on hand and in banks, investments, receivables, inventories, insurance and surety bonds, property and equipment, accounts payable, accruals, tax anticipation warrants, bonded debt, deferred revenue, revenue, expenditures, special accounts, and student activity accounts.

In addition to the review of internal controls and the listings of specific audit procedures for each account, the following important characteristics of these guidelines should be mentioned:

1. The program, as outlined, is not to be used as a substitute for the judgment and initiative of the auditor. Adjustments will have to be made in the program in terms of the conditions encountered in the various school districts.
2. The auditor should be familiar with the statutory regulations governing the accounting and auditing function as outlined in The School Code of Illinois and the Illinois Financial Accounting Manual for Local School Systems. Specific attention is directed to the definition of a fund and the classification of funds as fixed by statute.
3. Sampling, or test-checking, which is an approved auditing technique must be prudently employed, for:

The extent to which the auditor may rely on test-checking will, in general, depend upon the effectiveness of his system of internal control. If the auditor finds that internal control is weak in some or all respects, or is not properly or completely functioning, he should not only make a more extensive verification but he should also make such recommendations

as appear to be practicable and necessary to strengthen, improve or simplify the existing system.<sup>25</sup>

The two other drafts of the "Illinois School District No. 100 Audit Report," both for the cash basis of accounting<sup>26</sup> and the accrual basis of accounting,<sup>27</sup> are organized along similar lines, and variations appear only in terms of the inherent differences in the nature of these two bases of accounting.

The index to each draft lists the contents of the recommended audit report for the school district. Each draft begins with a sample of the statement of the auditor's opinion. The only difference in the samples is that the statement titles vary for the cash and the accrual basis of accounting.

The draft for the cash basis of accounting contains a "Statement of Assets and Liabilities Arising from Cash Transactions," whereas the draft for the accrual basis of accounting contains a "Balance Sheet." Moreover, for each of the funds maintained by a school district, there is also a difference in the form as well as the title of the statements for the cash and the accrual basis. For the cash basis, a "Statement of Receipts and Disbursements" and a separate, detailed "Statement of Disbursements" is presented for each fund. For the accrual basis, a "Statement of Re-

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<sup>25</sup>Ibid., p. 2.

<sup>26</sup>Illinois Society of Certified Public Accountants, A Draft, entitled: "Illinois School District No. 100 Audit Report" Cash Basis, May, 1964.

<sup>27</sup>Illinois Society of Certified Public Accountants, A Draft, entitled: "Illinois School District No. 100 Audit Report" Accrual Basis, May, 1964.

venue and Expenditures and Changes in Fund Balances," and a separate, detailed "Statement of Expenditures" is presented for each fund. In both instances, the Statements of Receipts and Disbursements and the Statements of Revenue and Expenditures show the actual account totals as related to the budgeted account totals.

For each basis, identical supplementary data schedules are presented. These include:

1. A "Bonded Debt Data" schedule which includes a study of the "Legal Debt Margin."
2. A schedule showing "Bond Maturities and Interest Requirements in Future Years."
3. A schedule showing "Tax Rates, Extensions, and Collections," and
4. A "Statement of Assessed Valuation, as Equalized."

Further reference will be made to these drafts in the following three chapters when the audit reports of the township school treasurers of Cook County for fiscal years ended June 30, 1963 and June 30, 1964 are analysed.

Particular emphasis will be placed on the extent to which the audit guidelines and the two model audit reports have been used by the independent auditors for the audit reports for fiscal year ended June 30, 1964.

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## CHAPTER IV

### THE FORM OF AUDIT REPORTS

#### INTRODUCTION

In this and the following two chapters will be presented the findings of this study. In this chapter the physical features and the organizational structure of the audit reports will be studied. In Chapter V the scope of the audit reports will be analysed. Chapter VI will present a study of the analyses, details, exhibits, schedules, statements, and summaries contained in the audit reports.

Under the caption, "Audits Are Not Uniform," the American Institute of Certified Public Accountants explains the various reasons for the lack of uniformity in the conduct of audits and in the audit reports themselves. Many of these reasons find justification in the audit reports which were analysed as part of this study.

Each audit discloses circumstances which require differences to a greater or lesser degree in the auditing procedures that should be employed, the manner in which they should be used, and the extent to which they should be applied. Among the reasons for these differences in requirements are that: (1) significant variations exist in the nature and scope of the operations of companies in different industrial or commercial groups, or even of companies within the same group or classification; (2) the degree of effectiveness of the internal control varies among companies; (3) even within a single

company the operating and accounting problems frequently change from year to year; and (4) the amount of detail to be included in the financial statements varies.<sup>1</sup>

But yet, as stated in Chapter III, the Committee on Standards of Reporting of the Illinois Society of Certified Public Accountants found, as a result of its study of the 1962 fiscal year audit reports of school districts of the State of Illinois, that "the scope and style of the reports varied to such a degree as to pose a considerable review problem for any authority charged with the responsibility of appraising the quality of reports."<sup>2</sup> This committee recommended "that a model report form be developed as a guide available to school district auditors in achieving the reporting objectives sought by the Superintendent of Public Instruction."<sup>3</sup>

When the audit guidelines and the model audit report drafts were forwarded to the members of the Illinois Society, a word of caution was inserted by the chairman of the Local Governmental Accounting Committee: "it should, of course, be recognized that these guidelines and statements are only guides and that of necessity individual judgment will be required in individual cases."<sup>4</sup>

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<sup>1</sup>Audits by Certified Public Accountants, p. 22.

<sup>2</sup>Letter from Harry I. Grossman, p. 4.

<sup>3</sup>Ibid., p. 5.

<sup>4</sup>Letter from Robert L. Coker, p. 1.

Throughout the next three chapters, comparative studies will be presented in an effort to highlight the changes which have occurred in the form, scope, and content of the audit reports for the two fiscal years under review. The recurring question which will have to be answered is this: have the audit reports for the second year under study shown a greater degree of uniformity than did the audit reports for the first year, as regards their form, scope, and content?

#### THE LOCAL SCHOOL DISTRICT AND THE TOWNSHIP SCHOOL TREASURER AUDITS

As explained in Chapter I, Cook County is the only county in the State of Illinois which is a Class II County school unit, having the township school trustees standing in a middle position between the County Board of Trustees and the local school boards. The school audit law of the State of Illinois applies not only to the local school district boards but equally to the township school trustees and the records maintained by the township school treasurer employed by these trustees.

Although Cook County is divided into twenty-eight township school districts, only twenty-seven of these districts contain local school districts within Cook County. Hanover Township, Township 41 - Range 9, has no school districts within the County of Cook.

Table 4 shows the name of the auditing firm and the number of township school treasurers' records which each of these firms

has audited for fiscal years ended June 30, 1963 and June 30, 1964.

Table 4.--Names of auditing firms and number of township school treasurers' records audited by each of these firms for fiscal years ended June 30, 1963 and June 30, 1964.

Name of Auditing Firm	Number of Township School Treasurers' Records audited for Fiscal Year Ended June 30,	
	1963	1964
Laurin, Schulties, and Givens	4	3
Alfred C. Hayles and Co.	3	3
Carl G. Schmidt	2	2
Pearce and Granata	2	2
Ernst and Ernst	2	2
James T. Wilkes and Company	2	3
Arthur Anderson & Co.	1	1
Crouch, Renberg, & Schneider	1	1
Arthur F. Frank & Co.	1	1
Alexander Grant & Co.	1	2
David J. Hearne, Jr.	1	0
Lybrand, Ross Bros. & Montgomery	1	1
Alfred S. Mac Farlane	1	1
Olson and Abney	1	1
Price Waterhouse & Co.	1	1
J. J. Rausch & Co.	1	1
Donald P. Roth	1	1
Arthur Young and Co.	1	1
Totals	27	27



For fiscal year ended June 30, 1963, a total of eighteen auditing firms was employed to conduct the township treasurers' audits. One firm performed four audits, one performed three, four performed two, and the remaining twelve firms performed one audit each.

For the second year, a total of seventeen auditing firms was employed. Three firms performed three audits, four firms performed two, and the remaining ten firms performed one audit.

The auditor's responsibilities for the individual school district audits vary from township to township. Table 5 shows the extent to which the same auditor employed by the township board of trustees is employed also by the local school board for the local school district audit.

For fiscal year ended June 30, 1963, the township auditor performed the auditing service in all school districts in fourteen townships. In the remaining thirteen townships, fifty local school district audits were performed by auditors not responsible for the township audit. However, in all twenty-seven townships, the township auditor performed at least one local school district audit. Of the 149 local school districts within Cook County, ninety-nine audits, or 66.44 per cent of the total, were performed by the township auditor and fifty, or 33.56 per cent of the total, were performed by auditors other than the township auditor.

For the second year under review, the township school district auditor performed the audit for all school districts in seven-

Table 5.--Total number of school districts within each township, number of school district audits performed by township auditor and by other auditors for fiscal years ended June 30, 1963 and 1964.

Township	Fiscal Year Ended June 30, 1963			Fiscal Year Ended June 30, 1964		
	Total Number of School Districts within Township	Number of District Audits by Township Auditor	Number of District Audits by Other Auditors	Total Number of School Districts within Township	Number of District Audits by Township Auditor	Number of District Audits by Other Auditors
T42-R9	2	2	0	2	2	0
T42-R10	1	1	0	1	1	0
T42-R11	5	5	0	5	5	0
T42-R12	7	6	1	7	7	0
T42-R13	6	2	4	6	2	4
T41-R10	2	2	0	2	2	0
T41-R11	2	1	1	2	1	1
T41-R12	4	4	0	4	4	0
T41-R13	10	3	7	10	3	7
T41-R14	2	2	0	2	2	0
T40-R12	11	7	4	11	11	0
T40-R13	2	2	0	2	2	0
T39-R12	13	3	10	13	3	10
T39-R13	6	1	5	6	1	5
T38-R12	11	1	10	11	1	10
T38-R13	3	2	1	3	3	0
T37-R11	2	2	0	2	2	0
T37-R12	3	3	0	3	3	0
T37-R13	12	8	4	12	8	4
T37-R14	2	1	1	2	2	0
T36-R12	4	4	0	4	4	0
T36-R13	7	7	0	7	7	0
T36-R14	10	10	0	10	10	0
T36-R15	6	6	0	6	5	1
T35-R13	6	5	1	5	4	1
T35-R14	8	7	1	8	8	0
T35-R15	2	2	0	2	2	0
Totals	149	99	50	149	105	44

teen of the twenty-seven townships. In the remaining ten townships, forty-four local school district audits were performed by auditors other than those performing the township district audit. As in the previous year, the township district auditor performed at least one local school district audit. Of the 149 local school districts, 105 audits, or 70.47 per cent of the total, were performed by the township auditor and forty-four, or 29.53 per cent, were performed by other auditors.

Table 6 shows the number of township audit reports which were submitted in a combined form: the audit report for the township treasurer and for each school district within the township; or in a separate form: either with a separate report for the township treasurer and separate reports for each school district within the township, or a separate report for the township treasurer and a combined report for all school districts within the township.

Table 6.--Auditors' method of filing, either in combined or separate form, the audit reports for township school treasurers and for local school districts.

Method	1963	1964
Combined report for township and all school districts	21	22
Separate report for township, and:		
Separate report for each school district	5	4
Combined report for all school districts	1	1
Totals	27	27

For fiscal year ended June 30, 1963, twenty-one township school district audit reports and the individual school district audit reports were combined in the one report. In five townships, a separate audit report was submitted for the township treasurer and for each school district within the township. In only one case was a separate audit report submitted for the township treasurer and a combined audit report for all school districts within the township.

For the second year under study, twenty-two township audit reports and the individual school district audits were combined in the one report. In four townships, a separate audit report was submitted for the township school treasurer and for each school district within the township. As in the previous year, there was only one case of a separate report for the township treasurer and a combined report for all school districts within the township.

#### GENERAL CHARACTERISTICS OF AUDIT REPORTS

The suggested title of the audit report, as recommended by the Local Governmental Accounting Committee of the Illinois Society of Certified Public Accountants is simply "audit report."

Table 7 illustrates the various titles of audit reports assigned by the auditors. These titles appear either on the cover of the report, on the frontispiece of the report, or on both.

For fiscal year ended June 30, 1963, fifteen distinct titles were used for the twenty-seven township treasurer audits. The most frequently used title, audit report, appeared on seven reports.

Table 7.--Titles of audit reports, as assigned by auditing firms, as title appears either on cover, frontispape, or both, for fiscal years ended June 30, 1963 and 1964.

Title of Audit Report	1963	1964
Accountant's Report	1	1
Annual Audit Report - Cash Basis	1	1
Audit Report	7	7
Audited Statements of Cash Receipts and Disbursements and Other Financial Information	2	2
Auditor's Report	1	2
Consolidated Annual Audit Report - Cash Basis	0	1
Financial Statements and Supplementary Information	1	1
Financial Statements with Auditor's Opinion	1	1
Report and Cash Basis Statements of <u>x</u> , Township School Treasurer	1	1
Report of Auditor	1	0
Report of Examination	1	0
Report on Examination of Accounts	0	1
Report on Examination of Treasurer's Books	1	1
Report on Township Treasurer	3	3
Treasurer of Schools	4	1
Treasurer of Schools, Township <u>x</u> , Range <u>x</u>	1	3
Township School Treasurer - Examination for the Year	1	1
Totals	27	27

For fiscal year ended June 30, 1964, the same total of fifteen distinct titles was used for the twenty-seven audit reports, although two new titles were used. Once again, the title, audit report, appearing on seven reports, was the most frequently used.

The model audit report prepared by the Local Governmental Accounting Committee of the Illinois Society indicates that the description of the school district and the date of the close of the fiscal period should be included on the frontispae of the report.<sup>5</sup>

The descriptive data appearing on the cover, frontispae, or both is shown in Table 8. All audit reports had some information on the cover of the report for both years. However, only twenty reports presented some information on the frontispae for year ended June 30, 1963, as opposed to only eighteen for the second year.

Table 8.-- Descriptive data appearing on cover, frontispae, or both, of the audit reports for fiscal years ended June 30, 1963 and 1964.

Descriptive Data	1963		1964	
	Cover	Frontispae	Cover	Frontispae
Name of CPA - Auditor	25	11	26	11
Description of Township School District	22	18	26	18
Period of Report	18	15	16	13
Date of Report	9	5	11	8
Name of Township Treasurer	5	2	6	3
School District Numbers	5	2	0	1

<sup>5</sup>Draft, "Illinois School District No. 100," p. 1-c or 1-a.

For fiscal year ended June 30, 1963, the name of the independent auditing firm appeared on twenty-five covers and eleven frontispages. The township school district was described on twenty-two covers and eighteen frontispages. Eighteen covers and fifteen frontispages showed the period of the report. Nine covers and five frontispages showed the date of the report. The name of the township treasurer and the local school district numbers within the township district appeared on five covers and two frontispages.

For the second year, the name of the auditing firm appeared on twenty-six covers and eighteen frontispages. The township school district was described on the cover of twenty-six reports and eighteen frontispages. The period of the report was noted on sixteen covers and thirteen frontispages. The date of the report was noted on eleven covers and eight frontispages. The name of the township school treasurer appeared on six covers and three frontispages. Local school district numbers appeared on no covers and on only one frontispage.

The National Committee on Governmental Accounting of the Municipal Finance Officers Association of the United States and Canada recommends that the body of the report contain a letter of transmittal, a financial section, and a statistical section. The content of the letter of transmittal is clearly stated:

The letter of transmittal should include the following:

- (a) A statement of the scope and limitations of the audit.
- (b) A summary of the findings of the audit.

(c) Recommendations for changes in the general accounting procedures and suggestions made during the course of the audit.

(d) Auditor's opinion. The form of the opinion would, of course, be modified to conform with the type and scope of the audit or investigation. In connection with certain types of audits or investigations, details of the specific work covered might properly be included, or certain qualifications might be necessary. In any case, where the auditor feels that it is impossible to give an unqualified opinion he should set forth his findings in his report so as to indicate clearly why an unqualified opinion is impossible. In general, the form of opinion should follow as closely as possible the standard form of opinion in use in audit reports, making due allowance for the special conditions being dealt with.<sup>6</sup>

The report form suggested to be used by the Local Governmental Accounting Committee is reprinted in Chapter V with explanatory notes relative to such a report. The approved short-form report of the Committee on Auditing Procedure of the American Institute of Accountants is likewise included in Chapter V, to show the variations from the standard short-form report as recommended by the Illinois Society for school district audits.

It should be noted that the recommended report of the Illinois Society is printed in letter form addressed to the Board of Education of the local school district. The letter is signed by the independent auditor, is dated, and bears the address of the auditor.

Since the auditor is responsible for his opinion on the financial statements included in his report, he must have the free-

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<sup>6</sup>National Committee on Governmental Accounting, Municipal Finance Officers Association of the United States and Canada, Municipal Accounting and Auditing, (Chicago: Municipal Finance Officers Association of the United States and Canada, 1951), pp. 210-211.



dom to express his opinion as he sees fit.

If, in his judgment, it is necessary or desirable to include explanations of his findings or to take exception to some aspect of the financial statements, those matters are usually included in a separate paragraph of the report. The CPA is responsible for reporting any exceptions clearly and unequivocally, whether they involve the scope of the audit work, particular items in the financial statements, the soundness of the company's accounting practices (as regards either the books or the financial statements) or lack of consistency in the application of accounting practices.

It bears repetition that the financial statements, with all supplemental descriptive and explanatory data, including footnotes, are regarded as representations of the company. It is upon all these representations that the CPA exercises his independent, considered judgment and renders his opinion. If explanations are essential or desirable, and they are not incorporated in a manner he considers satisfactory, he makes appropriate explanations in his report.<sup>7</sup>

Table 9 shows information concerning the actual form of the reports for the two years under review.

Table 9.--The forms of report selected by the independent auditors for audit reports for fiscal years ended June 30, 1963 and 1964.

Form of Report	1963	1964
Short Form	21	20
Long Form	6	7
Totals	27	27
Letter Form: Addressed to: Trustees of Schools	23	26
Township Treasurer	1	0
Board of Education	1	0
Board of Directors	1	1
Report Form	1	0
Totals	27	27

<sup>7</sup>Audits by Certified Public Accountants, p. 16.

For fiscal year ended June 30, 1964, the standard short form of report was used in twenty-one reports and the long form was used in six reports. Moreover, only one report of the twenty-seven was presented in a report form, and all the others were in a letter form. In the other twenty-six audit reports, the letter form was addressed to the trustees of schools in twenty-three cases, and to the township school treasurer, to the Board of Education, and to the board of directors in one instance each.

For the second year, twenty reports were prepared in the standard short form and seven in the long form. All twenty-seven reports were presented in letter form as opposed to the report form. Twenty-six letters were addressed to the trustees of schools, and one was addressed to the board of directors.

In discussing the form and content of the audit report, the National Committee on Governmental Accounting of the Municipal Finance Officers Association of the United States and Canada states that "the body of the report should be preceded by a table of contents."<sup>8</sup> However, the Local Governmental Accounting Committee of the Illinois Society, in its model audit report drafts, suggests the use of an index which would precede the letter of transmittal.

Carl H. Chatters and Irving Tenner clearly distinguish the table of contents from an index when they write:

Every report should be preceded by a table of contents in which each statement is listed in the order in which it appears

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<sup>8</sup>Municipal Accounting and Auditing, p. 210.

in the report. The table of contents should show for each statement the following information: (1) statement number, (2) name of statement, and (3) page number of the report. A table of contents is important not only because it enables the reader to find statements readily but also because it shows the entire structure of the report at a glance.

A distinction should be made between a table of contents and an index. The table of contents should appear at the beginning of the report. If an index is desired in addition, it should be placed at the end of the report. An index differs from a table of contents in the following respects, among many others: (1) references are arranged alphabetically rather than in the order in which the statements appear in the report, and (2) statement numbers are not shown.<sup>9</sup>

Whether the title of such a guide should be a table of contents or an index is a matter of discussion, but it is important that interested parties have a guide to indicate the page numbers where information is to be found. The auditor likewise will find such a guide helpful if it is necessary to refer in the letter of transmittal to any specific schedule, statement, summary, exhibit, or analysis included in the report.

Table 10 shows the number of township school treasurer's audit reports which contained a table of contents or an index for both years under study. It likewise indicates the position of this information in the audit report.

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<sup>9</sup>Carl H. Chatters and Irving Tenner, Municipal and Governmental Accounting, (New York: Prentice-Hall, Inc. 1946), p. 452.

Table 10.--Placement of table of contents or index in audit reports for fiscal year ended June 30, 1963 and 1964.

Placement	1963	1964
Precedes Scope and Opinion Section	17	18
Included in Letter of Transmittal Prior to the Scope Section	3	2
Included in Scope Section	3	4
Follows Scope and Opinion Section	2	2
No Table of Contents or Index	2	1
Totals	27	27

For fiscal year ended June 30, 1963, only twenty-five reports contained a table of contents or an index. In seventeen cases the information was presented prior to the scope paragraph as a separate schedule. In three additional cases the information was presented prior to the scope paragraph, but in a letter of transmittal. In three cases the information was contained in the scope section of the report, and in two cases the information followed the scope and the opinion paragraph.

For the second year, all but one audit report contained a table of contents or an index. In eighteen cases the information preceded the scope paragraph. In two additional cases the information was presented in the letter of transmittal. In four cases the information was contained in the scope section, and in two cases it followed the scope and the opinion paragraph.

Auditors oftentimes use the standard report form for their report, and, in addition, they include special comments relative to their work during the audit investigation or some special features of the audit which will affect the reader's interpretation of the report. Table 11 shows the positions of the special comments section of the audit report for the two years under study.

Table 11.--Position of special comments section in the audit reports for fiscal years ended June 30, 1963 and 1964.

Position	1963	1964
Included within Scope Section	8	12
Included within Opinion Section	0	0
Separate from Scope and Opinion Sections	12	9
No Special Comments Section	7	6
Totals	27	27

For fiscal year ended June 30, 1963, twenty audit reports had some special comments. In twelve instances these special comments were set apart from the scope and the opinion paragraph of the report. In eight cases these special comments were included within the scope section of the report.

For fiscal year ended June 30, 1964, twenty-one audit reports contained a special comments section. In nine cases the special comments were set apart from the scope and the opinion paragraph. In twelve cases the special comments were included in the scope section.

Table 12 is designed to show the variations of the forms of reports in terms of the total number of pages of the reports as well as the number of pages devoted to the scope, opinion, special comments, and other analyses, details, exhibits, schedules, statements, and summaries presented in the reports.

For fiscal year ended June 30, 1963, one audit report contained a total of only seven pages, whereas the most lengthy report was 117 pages in length. The median report contained twenty-six pages.

For the second year under study, the briefest report contained only seven pages, whereas the most lengthy report contained 193 pages. The median report contained forty pages.

Another interesting feature of the audit reports under review which highlights the complexity of some reports is the total number of analyses, details, exhibits, schedules, statements, and summaries contained in the audit reports. Table 13 presents this information for the two year study.

For fiscal year ended June 30, 1963, two reports had only five such presentations, whereas one audit report contained ninety-six. The median number of such statements was fifteen; the mean, 22.45.

For fiscal year ended June 30, 1964, the briefest report contained only four such presentations, whereas one audit report contained 102. The median number of such presentations was twenty. The mean was 26.11.

Table 12.--Total number of pages devoted to scope, opinion, comments, and other analyses, details, exhibits, schedules, statements, and summaries, and total number of pages of audit reports for fiscal years ended June 30, 1963 and 1964.

Township	Fiscal Year Ended June 30, 1963					Fiscal Year Ended June 30, 1964				
	Scope	Opinion	Comments	Other	Total	Scope	Opinion	Comments	Other	Total
T42-R9	1	1	0	17	18	1	1	5	17	23
T42-R10	1	1	0	11	12	1	1	2	11	14
T42-R11	2	1	1	45	47	2	1	18	71	92
T42-R12	2	1	1	30	34	4	1	1	32	38
T42-R13	1	1	1	53	55	1	1	2	63	66
T41-R10	1	1	0	22	23	1	1	0	23	24
T41-R11	1	1	6	19	26	1	1	1	44	46
T41-R12	1	1	0	39	41	1	1	1	26	28
T41-R13	4	1	1	33	39	5	1	1	34	41
T41-R14	1	1	1	38	40	1	1	2	13	17
T40-R12	2	1	15	68	86	1	1	18	68	87
T40-R13	1	1	2	17	20	1	1	2	15	18
T39-R12	1	1	6	37	44	1	1	6	38	45
T39-R13	1	1	1	31	32	1	1	1	31	33
T38-R12	1	1	1	95	97	1	1	1	97	99
T38-R13	1	1	10	33	44	1	1	10	29	40
T37-R11	1	1	0	35	36	1	1	2	33	37
T37-R12	1	1	0	43	44	1	1	0	47	48
T37-R13	1	1	0	22	23	1	1	0	33	34
T37-R14	1	1	1	9	11	1	1	1	9	11
T36-R12	1	1	0	25	26	1	1	0	26	27
T36-R13	1	1	1	18	20	1	1	1	57	59
T36-R14	2	1	1	12	17	1	1	3	188	193
T36-R15	1	1	3	7	12	1	1	12	113	128
T35-R13	2	1	1	14	19	1	1	16	67	86
T35-R14	1	1	2	51	54	1	1	2	49	52
T35-R15	1	1	1	5	7	1	1	1	5	7

Table 13.--Total number of analyses, details, exhibits, schedules, statements, and summaries contained in audit reports - though not necessarily contained in table of contents or index - for fiscal years ended June 30, 1963 and 1964.

Township	1963	1964
T42-R9	13	13
T42-R10	8	8
T42-R11	13	30
T42-R12	28	29
T42-R13	16	20
T41-R10	12	18
T41-R11	17	22
T41-R12	11	11
T41-R13	34	34
T41-R14	14	8
T40-R12	39	40
T40-R13	8	9
T39-R12	17	18
T39-R13	17	17
T38-R12	54	71
T38-R13	15	17
T37-R11	13	16
T37-R12	28	31
T37-R13	19	29
T37-R14	5	5
T36-R12	30	26
T36-R13	25	36
T36-R14	100	102
T36-R15	6	42
T35-R13	45	40
T35-R14	15	15
T35-R15	5	4
Totals	607	705

#### ORGANIZATION OF DATA PRESENTED

The Local Governmental Accounting Committee of the Illinois Society of Certified Public Accountants included in the draft of model audit reports, both for the cash and the accrual basis of accounting, certain statements which should appear in the audit re-



port of each school district in the State of Illinois.<sup>10</sup> In this section, reference will be made to these sample statements, to show the organization of the data which should appear in the audit report for the two years. A detailed analysis of the contents of these statements will be presented in Chapter VI.

The first such sample statement is entitled: Statement of Assets and Liabilities Arising from Cash Transactions.<sup>11</sup> Table 14 illustrates the titles of the various statements on which the information, recommended to be contained in this statement, is presented. It indicates the frequency of use of each statement for both years under review.

For fiscal year ended June 30, 1963, this information was presented on statements bearing twenty-four different titles. One township district audit report had some of the necessary information presented on three different statements. Six township district audit reports had some of the required information presented on two separate statements. The remaining twenty districts used one statement for the information.

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<sup>10</sup>Draft, "Illinois School District No. 100 Audit Report," p. 1-c or 1-a.

<sup>11</sup>Ibid., p. 1-c. It is obvious that this statement is used only when the accounting records are maintained on the cash basis. For school districts using the accrual basis of accounting, the statement would be: "Balance Sheet - All Funds." Ibid., p. 1-a/

Table 14.--Titles of statements containing information which the Local Governmental Accounting Committee of the Illinois Society recommends to appear on the Statement of Assets and Liabilities Arising from Cash Transactions, as the information appears in the audit reports for fiscal years ended June 30, 1963 and 1964.

Titles of Statements	Frequency	
	1963	1964
Balance Sheets	1	2
Bank Reconciliation	1	0
Cash Receipts and Disbursements	1	0
Cash Receipts, Disbursements and Fund Balances	1	1
Cash Reconciliation	0	1
Changes in Investments	0	1
Comments	2	1
Consolidated Analysis of Assets and Fund Equities	0	1
Consolidated Summary of Assets and Fund Equities	0	1
Notes to Statement of Cash Receipts and Disbursements	2	3
Receipts and Disbursements	0	1
Reconciliation of Fund Balances	3	1
School District Funds - Securities Owned	1	1
Statement of Assets and Liabilities	0	1
Statement of Assets and Liabilities Arising from Cash Transactions	0	1
Statement of Assets, Liabilities, and Fund Balances	1	1
Statement of Cash and Security Balances - All Funds	1	1
Statement of Cash and Securities - All Funds	1	1
Statement of Cash Receipts and Disbursements	2	2
Statement of Cash, Securities, and Fund Balances - All Funds	1	1
Statement of Fund Balances	0	1
Statement of Funds and Fund Equities	1	1
Statement of Investments	0	1
Statement of Receipts and Disbursements	2	2
Summary of Assets and Fund Equities	3	1
Summary of Cash and Investments	1	1
Summary of Fund Balances	3	2
Summary of Cash Receipts and Disbursements - All Districts	0	1
Summary of Fund Transactions - by Districts	1	2
Summary of Cash Receipts and Disbursements - All Funds	2	1

Table 14.--Continued.

Titles of Statements	Frequency	
	1963	1964
Summary of Receipts and Disbursements	1	3
Summary Statement of Cash and Investments	1	1
Summary Statement of Cash Receipts and Disbursements	0	1
Summary Statement of School District Cash and Securities Balances by Funds	1	1
Treasurer's Balance Sheet	1	1

For fiscal year ended June 30, 1964, the information appeared on statements bearing thirty-three different titles. Only one report presented a statement entitled as recommended by the Local Governmental Accounting Committee. Three township district audit reports had some of the necessary information presented on three different statements. Seven reports had some of the required information presented on two separate statements. The remaining seventeen district reports used one statement for the information.

The sample Statement of Assets and Liabilities Arising from Cash Transactions presents the required asset, liability, and fund balance accounts for each fund which is used in the local school district. In explaining this arrangement of data, the Committee states that "the use of a separate statement for each fund is suggested if the combined form does not adequately set forth the financial position of each fund."<sup>12</sup>

<sup>12</sup>Draft, "Illinois School District No. 100 Audit Report," p. 5-c.

This explanation applies to the audit reports of the individual school districts, but it is evidently not intended for the audits of the township school treasurers' records in the Class II county school unit organization. In this form of organization, an additional problem presents itself: that the twenty-seven township school districts are composed of local school districts, ranging in number from one to thirteen. In presenting the required information, therefore, the auditor has four alternatives: (1) to organize the data for all funds for all local districts; (2) to organize the data for all funds for each of the local districts; (3) to organize the data for each fund for all local districts; and (4) to organize the data for each fund for each of the local districts. Table 15 illustrates the organization of data selected by the independent auditors for the various districts for the two years under study.

For fiscal year ended June 30, 1963, three audit reports used all four forms of organization of data; three reports used form one and two; three reports used form two and four; ten reports used only form one; five reports used only form two; and three reports used only form four.

For fiscal year ended June 30, 1964, four audit reports used all four forms of organization of data; four reports used forms one, two, and four; seven reports used forms one and two; one report used forms two and three; three reports used forms two and four; three reports used only form one; three reports used only

Table 15.--Form of organization of data selected by the independent auditor in presenting information recommended to appear on the Statement of Assets and Liabilities Arising from Cash Transactions, for fiscal years ended June 30, 1963 and 1964.

Township	Fiscal Year Ended June 30, 1963				Fiscal Year Ended June 30, 1964			
	Data for All Funds for All Districts	Data for All Funds for Each District	Data for Each Fund for All Districts	Data for Each Fund for Each District	Data for All Funds for All Districts	Data for All Funds for Each District	Data for Each Fund for All Districts	Data for Each Fund for Each District
T42-R9	X							X
T42-R10	X				X			
T42-R11	X					X		X
T42-R12	X	X	X	X	X	X	X	X
T42-R13	X	X	X	X	X	X	X	X
T41-R10	X				X			
T41-R11	X				X	X		X
T41-R12		X		X		X		X
T41-R13	X	X	X	X	X	X	X	X
T41-R14				X				X
T40-R12	X	X			X	X		X
T40-R13		X		X		X		X
T39-R12	X				X			
T39-R13		X				X		
T38-R12	X	X			X	X		
T38-R13	X	X			X	X		
T37-R11		X				X		
T37-R12		X		X	X	X		
T37-R13				X	X	X		
T37-R14		X				X		
T36-R12				X		X	X	
T36-R13		X			X	X		
T36-R14	X				X	X		X
T36-R15		X			X	X	X	X
T35-R13	X				X	X		X
T35-R14	X				X	X		
T35-R15	X				X	X		

form two; and two reports used only form four.

The model audit report drafts present one sample of the Statement of Cash Receipts and Disbursements and Comparison with the Budget for each of the funds which a school district should maintain, provided that the school district is on the cash basis of accounting. The corresponding statement for the accrual basis of accounting is the Statement of Revenue and Expenditures and Comparison with the Budget. A detailed presentation of the content of these statements will be presented in Chapter VI, and the present discussion will concern only the organizational form of the statements. Table 16 indicates the various titles of statements which contain the required information.

For fiscal year ended June 30, 1963, fifteen different titles were used for these statements, although the words, receipts and disbursements, appeared in a total of twenty-three statement titles. Three reports used two different statements for the data.

For fiscal year ended June 30, 1964, twenty-one different titles were used for the statements, although the words, receipts and disbursements, appeared in a total of twenty-five different titles. One report had four different statements which contained the required information. Eleven reports had two different statements for the required information. The remaining fifteen audit reports had one statement each. Only two district audit reports had statements bearing the title as recommended by the Local Governmental Accounting Committee.

Table 16.--Titles of statements containing information which the Local Governmental Accounting Committee of the Illinois Society recommends to appear on the Statement of Cash Receipts and Disbursements and Comparison with the Budget, as the information appears in the audit reports for fiscal years ended June 30, 1963 and 1964.

Titles of Statements	Frequency	
	1963	1964
Analysis of Cash Receipts and Disbursements	0	1
Annual Financial Report - Cash Basis	1	0
Bank Reconciliation	0	1
Cash Receipts and Disbursements	4	2
Cash Receipts and Disbursements and Balances	2	0
Cash Receipts and Disbursements and Fund Balances	1	2
Cash Report	4	3
Combined Statement of Revenues and Expenditures	1	0
Consolidated Disbursements by Districts - Cash Basis	0	1
Consolidated Receipts - By Districts - Cash Basis	0	1
Operating Disbursements - Cash Basis - Budget vs. Actual	0	1
Receipts and Disbursements	2	1
Receipts and Disbursements - Budget vs. Actual	0	1
Statement of Cash Receipts and Disbursements	2	5
Statement of Cash Receipts and Disbursements - All Funds	2	0
Statement of Cash Receipts and Disbursements - Board Funds	1	1
Statement of Current Expenses Disbursed	0	1
Statement of Disbursements and Comparison with Budget	0	1
Statement of Receipts and Disbursements and Comparison with Budget	0	2
Statement of Fund Transactions and Fund Balances	1	1
Summary of Cash Receipts and Disbursements	5	5
Summary of Cash Receipts and Disbursements - All Funds	2	1
Summary of Receipts and Disbursements	0	1
Summary Statement of Cash Receipts and Disbursements and Change in Cash and Security Balances	1	1
Summary Statement of Cash Receipts and Disbursements	1	2

Although the sample audit report contains a separate statement for each fund maintained in the school district, the Local Governmental Accounting Committee does not prohibit the one combined statement for all funds. Moreover, in the Class II county school unit districts, additional combinations of data presentation may be found: (1) for all funds for all districts; (2) for all funds for each district; (3) for each fund for all districts; and (4) for each fund for each district. Table 17 indicates the form of presentation chosen by the auditors of the various township districts relative to the Statement of Cash Receipts and Disbursements and Comparison with the Budget for the two years under review.

For fiscal year ended June 30, 1963, four township audit reports used all four forms of presentation; one report used forms one, two, and four; one report used forms one and two; fifteen reports used forms two and four; three reports used only form two; and three reports used only form four.

For fiscal year ended June 30, 1964, ten township audit reports used all four forms of organization of data; four reports used forms one, two, and four; twelve reports used forms two and four; and one report used only form four.



Table 17.--Form of organization of data selected by the independent auditor in presenting information recommended to appear on the Statement of Cash Receipts and Disbursements and Comparison with the Budget, for fiscal years ended June 30, 1963 and 1964.

Township	Fiscal Year Ended June 30, 1963				Fiscal Year Ended June 30, 1964			
	Data for All Funds for All Districts	Data for All Funds for Each District	Data for Each Fund for All Districts	Data for Each Fund for Each District	Data for All Funds for All Districts	Data for All Funds for Each District	Data for Each Fund for All Districts	Data for Each Fund for Each District
T42-R9		X		X		X		X
T42-R10		X		X		X		X
T42-R11		X		X		X		X
T42-R12		X		X		X		X
T42-R13	X	X	X	X	X	X	X	X
T41-R10		X		X		X		X
T41-R11	X	X	X	X	X	X	X	X
T41-R12		X		X	X	X	X	X
T41-R13		X		X		X		X
T41-R14		X		X	X	X	X	X
T40-R12	X	X			X	X	X	X
T40-R13		X		X		X		X
T39-R12	X	X	X	X	X	X	X	X
T39-R13	X	X	X	X	X	X	X	X
T38-R12		X		X	X	X	X	X
T38-R13		X				X		X
T37-R11		X		X		X		X
T37-R12	X	X		X	X	X		X
T37-R13				X	X	X		X
T37-R14				X	X	X		X
T36-R12				X				X
T36-R13		X			X	X		X
T36-R14		X		X		X		X
T36-R15		X			X	X	X	X
T35-R13		X		X		X		X
T35-R14		X		X	X	X	X	X
T35-R15		X		X		X		X

Moreover, the Committee recommends the use of a Detailed Statement of Disbursements, for the cash basis of accounting, and a Detailed Statement of Expenditures, for the accrual basis. These statements appear as separate statements in the model audit report drafts.<sup>13</sup> The subsidiary accounts under each major account title, such as administration, instruction, health, and so forth, are shown in detail on these separate statements with actual and budgeted figures.

Table 18 illustrates for the two years under review the number of township school treasurer audit reports which contained these Detailed Statements of Disbursements, either as part of the Statement of Cash Receipts and Disbursements or as a supplement to it.

Table 18.--Number of township school treasurer audit reports which contained Detailed Statement of Disbursements and form of presentation of such statements for fiscal years ended June 30,

Form of Presentation	1963	1964
Included within Statement of Cash Receipts and Disbursements	6	5
Presented as a separate statement	14	16
Totals	20	21

For fiscal year ended June 30, 1963, twenty audit reports presented the Detailed Statement of Disbursements. Six reports included the detailed accounts within the Statement of Cash Receipts

<sup>13</sup>Ibid., p. 1-c and 1-e.

and Disbursements, and fourteen reports used a separate statement for the information.

For the second year under study, twenty-one audit reports presented the detailed statement. Five reports presented the detailed subsidiary disbursement accounts within the Statement of Cash Receipts and Disbursements, and sixteen reports used a separate statement.

The Local Governmental Accounting Committee recommends the use of two distinct schedules to disclose information relative to bonded debt. The first of these schedules is entitled Bonded Debt Data and the second is entitled Bond Maturities and Interest Requirements in Future Years.<sup>14</sup> The contents of these schedules will be presented in Chapter VI. Table 19 illustrates the various titles of statements which contain some information as to bonded debt.

For fiscal year ended June 30, 1963, fifteen different titles were used. One township school treasurer's audit report had some of the required information presented on three distinct statements. and one township school treasurer's audit report used two statements for the information. Twenty-four audit reports used but one statement. One audit report presented no information on bonded debt.

For the second year under review, seventeen different titles were used. Three township school treasurer's audit reports used two statements for the information. The remaining twenty-four audit reports used but one statement.

<sup>14</sup>Ibid., p. 18-c and 19-c; p. 16-a and 17-a.

Table 19.--Titles of statements containing information which the Local Governmental Accounting Committee of the Illinois Society recommends to appear on the statement of Bonded Debt Data, as the information appears in the audit reports for fiscal years ended June 30, 1963 and 1964.

Titles of Statements	Frequency	
	1963	1964
Analysis of Bonds Issued, Retired and Outstanding	1	0
Analysis of Obligations Outstanding	0	1
Bond and Interest Funds	0	1
Bond and Interest Transactions	0	1
Bond Maturities-- Interest Requirements in Future Years	0	1
Bond Interest Payable	1	1
Bond Principal Payable	1	1
Bonded Indebtedness	2	2
Bonds Outstanding as of June 30, 19__	5	5
Bonds Payable	1	1
Schedule of Recorded Obligations Outstanding	2	1
School District Bonds Outstanding	1	1
Statement of Bonded Debt	2	1
Statement of Bonds Outstanding	3	3
Summary of Bond Issues	4	3
Summary of Bond Maturities and Interest Paid	1	0
Summary of Bond Maturities and Interest Payable	1	1
Summary of Bonded Indebtedness by School District	1	1
Summary of Bonds Outstanding	3	3

Table 20 illustrates the manner in which the Bonded Debt Data was presented on the audit reports. There are four combinations for presenting the information: (1) for all issues for all districts; (2) for all issues for each district; (3) for each issue for all districts; and (4) for each issue for each district.

For fiscal year ended June 30, 1963, one report used forms one and two; eleven reports used forms two and four; nine reports

Table 20.--Form of organization of data selected by the independent auditor in presenting information recommended to appear on the Supplementary Schedule: Bonded Debt Data, for fiscal years ended June 30, 1963 and 1964.

Township	Fiscal Tear Ended June 30, 1963				Fiscal Year Ended June 30, 1964			
	Data for All Issues for All Districts	Data for All Issues for Each District	Data for Each Issue for All Districts	Data for Each Issue for Each District	Data for All Issues for All Districts	Data for All Issues for Each District	Data for Each Issue for All Districts	Data for Each Issue for Each District
T42-R9		X		X		X		X
T42-R10		X		X		X		X
T42-R11		X		X		X		X
T42-R12		X		X		X		X
T42-R13				X		X		X
T41-R10		X		X		X		X
T41-R11	X	X				X		
T41-R12		X				X		
T41-R13		X				X		
T41-R14		X				X		
T40-R12				X	X	X		X
T40-R13				X				X
T39-R12		X				X		
T39-R13		X				X		
T38-R12		X				X		X
T38-R13				X				X
T37-R11		X		X		X		X
T37-R12		X				X		X
T37-R13		X		X		X		X
T37-R14		X		X		X		X
T36-R12					X			
T36-R13		X		X		X		
T36-R14		X		X		X		X
T36-R15				X		X		X
T35-R13		X		X		X		X
T35-R14		X				X		
T35-R15		X				X		

used only form two; and five reports used only form four; one report presented no information relative to bonded debt.

For the second year under review, one report used forms one, two, and four; fourteen reports used forms two and four; nine reports used only form two; two reports used only form four; and one report used only form one.

Table 21 illustrates for the two years under review the number of township school treasurer audit reports which contained information on Bond Maturities and Interest Requirements in Future Years. The Committee suggests that this information appear as a separate schedule.

Table 21.--Number of township school treasurer audit reports which contained information on Bond Maturities and Interest Requirements in Future Years for fiscal years ended June 30, 1963 and 1964.

Form of Presentation	1963	1964
Presented as a separate schedule	3	4
Included within Bonded Debt Data Schedule	17	15
Totals	20	19
Bond Maturity Data only	19	16
Bond Maturity and Interest Requirements	1	3
Totals	20	19

For fiscal year ended June 30, 1963, a total of twenty audit reports contained some information. Nineteen reports presented information on Bond Maturities and one report presented in-

formation on Bond Maturities and Interest Requirements. Only three such presentations appeared as separate schedules. In all other cases the information was included with the Bonded Debt Data.

For the second year under review, nineteen reports contained some information. Sixteen reports presented information on Bond Maturities and three reports presented information on Bond Maturities and Interest Requirements. Four presentations appeared as separate schedules. In the fifteen other reports the information was included with the Bonded Debt Data Schedule.

Two additional schedules which present information concerning taxation are suggested by the Committee: Tax Rates, Extensions, and Collections, and a Statement of Assessed Valuation as Equalized.<sup>15</sup> The contents of these schedules will be discussed in Chapter VI. Table 22 indicates the various titles of statements containing the information which is recommended to appear on the supplementary schedule: Tax Rates, Extensions, and Collections.

For fiscal year ended June 30, 1963, sixteen audit reports presented the required information. Thirteen of these were separate schedules, and three appeared as part of another statement: either in the comments section of the audit report, as in two instances, or as part of the Statement of Cash Receipts and Disbursements.

For the second year under review, eighteen reports presented the required information. Sixteen of these contained separate schedules, and two contained the information as part of other

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<sup>15</sup>Ibid., p. 20-c and 21-c, and p. 18-a and 19-a.

Table 22.--Titles of statements containing information which the Local Governmental Accounting Committee of the Illinois Society recommends to appear on the Supplementary Schedule: Tax Rates, Extensions, and Collections, as the information appears in the audit reports for fiscal years ended June 30, 1963 and 1964.

Titles of Statements	Frequency	
	1963	1964
Analysis of General Taxes	1	3
Analysis of Taxes Receivable	1	0
Assessed Valuation and Rates	0	1
Cash Receipts and Disbursements	1	0
Comments	2	1
Comparative Summary of Tax Data	1	0
Details of Cash Receipts	0	1
Property Taxes	2	1
Schedule of Taxes Levied, Received, and Uncollected	1	1
Statement of Cash Receipts and Disbursements	0	1
Statement of General Tax Receipts	3	0
Statement of Taxes Collected	0	1
Summary of Taxes Levied	1	1
Summary of Uncollected Taxes	1	0
Statement of Fund Transactions and Fund Balances	0	1
Tax Data	1	1
Tax Rates, Extensions, and Collections	0	1
Taxes Receivable	1	1
Verification of Data	0	3

statements: Details of Cash Receipts and in the comments section of the report. Two reports used two separate statements for the information. Only one statement followed the recommended title.

Table 23 shows the number of township treasurer audit reports which contained information on Assessed Valuation, as Equalized.

For fiscal year ended June 30, 1963, only one audit report presented the required information.



Table 23.--Number of township school treasurer audit reports which contained information on Assessed Valuation, as Equalized, for fiscal years ended June 30, 1963 and 1964.

Form of Presentation	1963	1964
Presented as a separate statement	1	2
Included within other statements	0	0
Totals	1	2

For fiscal year ended June 30, 1964, two statements contained the information, and both used the recommended title for such a statement.

#### METHOD OF FILING QUESTIONNAIRE

As previously stated, The School Code of Illinois demands the completion of the four-page "Questionnaire to Be Completed by School District Auditors," for 1963, and its revised form for 1964, "Questionnaire to Be Completed by Auditors of the Township Treasurers of School Districts." According to the instructions on these forms, which are reproduced in Appendix IV, "the person or firm performing auditing services for school districts . . . must attach one copy of this questionnaire to each of the two audit reports filed with the County Superintendent of Schools. Two additional copies are furnished herewith, one for the school district and one for the auditor."<sup>16</sup>

<sup>16</sup>Illinois, Office of the Superintendent of Public Instruction, "Questionnaire to be Completed by School District Auditors," (Springfield; 1963), p. 1.

Despite these clearly worded instructions regarding the method of submitting the questionnaire, the method of filing was not found to be uniform. Table 24 illustrates the method of filing the questionnaire for the two years under review.

Table 24.--Method of filing questionnaire, showing with which report the questionnaire was forwarded and filed in the Office of the County Superintendent of Schools, for fiscal years ended June 30, 1963 and 1964.

Method of filing	1963	1964
Filed with Township School Treasurer's Audit		
One Questionnaire for Township	2	5
One Questionnaire for Each School District	2	3
Subtotal	4	8
Filed with Local School District Audit		
One Questionnaire for Township	1	0
One Questionnaire for Each School District	6	1
Subtotal	7	1
Filed with Each School District Annual Financial Report	13	18
Total Filed	24	27
Not Filed	3	0
Total	27	27

For fiscal year ended June 30, 1963, only twenty-four of the twenty-seven township school districts were found to have the required questionnaire on file. Of these twenty-four districts, there were four cases in which the questionnaires were filed with

the township school treasurer's audit reports, seven cases in which the questionnaires were filed with the local school district audit, and thirteen cases in which the questionnaires were filed with each local school district annual financial report. Moreover, of the four cases in which the questionnaire was filed with the township school treasurer's report, there were two cases in which only one combined questionnaire was filed for the township and all school districts within the township and two cases in which there was one questionnaire for each school district within the townships. Of the seven cases in which the questionnaire was filed with the local school district audit, there was one case in which only one questionnaire was filed for the township and all local school districts within the township, and six cases in which there was one questionnaire for each school district within the township.

For fiscal year ended June 30, 1964, all twenty-seven township school districts had the required questionnaire on file. There were eight cases in which the questionnaire was filed with the audit report of the township school treasurer; of these eight cases there were five cases in which one questionnaire was filed for the township, and three cases in which a separate questionnaire was filed for each local school district. There was one case in which a separate questionnaire was prepared for each school district within the township and filed with the local school district audit report. In all other eighteen cases the separate questionnaire for each local school district was filed with each local school district

annual financial report.

### THE TOWNSHIP DISTRIBUTIVE AND LOANABLE FUNDS

The duties of the township school treasurer regarding the township distributive and the township loanable funds have been discussed in Chapter I. Since these funds are also subject to audit, as required by Section 3-7 of the School Code of Illinois, the audit reports of the township school treasurers should contain information relative to both funds.

Table 25 presents a study of the number of township school treasurer audit reports which contain information relative to the township distributive fund for the two years under review.

Table 25.--Number of township school treasurers' audit reports which contain information concerning the township distributive fund with explanation of the form of presentation for fiscal years ended June 30, 1963 and 1964.

Form of Presentation	1963	1964
Presented as a separate schedule	20	24
Included within:		
Summary of Cash and Investments	1	2
Treasurer's Balance Sheet	1	1
No mention	5	0
Total	27	27

For fiscal year ended June 30, 1963, twenty such audit reports contained a separate schedule of the audit of this fund, two reports presented the information as part of other statements,

and five audit reports made no mention of the fund.

For fiscal year ended June 30, 1964, all twenty-seven reports contained some information on the township distributive fund: twenty-four contained a separate schedule, and three reports presented the information as part of other statements.

Table 26 presents a study of the number of township school treasurer audit reports which contain information relative to the township loanable fund.

Table 26.--Number of township school treasurer's audit reports which contain information concerning the township loanable fund with explanation of the form of presentation for fiscal years ended June 30, 1963 and 1964.

Form of Presentation	1963	1964
Presented as a separate schedule	16	18
Included within:		
Notes to Statement of Cash Receipts and Disbursements	0	2
Statement of Cash Receipts and Disbursements	0	2
Statement of Cash, Securities and Fund Balances	1	0
Summary of Cash and Investments	1	2
Treasurer's Balance Sheet	2	2
No mention	7	1
Total	27	27

For fiscal year ended June 30, 1963, sixteen such audit reports contained a separate schedule of the audit of this fund, four reports presented the information as part of other statements, and seven audit reports made no mention of the fund whatsoever.

For the second year under review, all but one audit report presented some information on the township loanable fund: eighteen reports contained a separate schedule; and eight reports presented the information as part of other statements.

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## CHAPTER V

### THE SCOPE OF AUDIT REPORTS

#### INTRODUCTION

The scope of an audit report represents the nature of the auditor's examination which preceded the actual report. The scope of the auditor's work, prior to the preparation of his opinion on the audited financial statements, serves as the basis of the auditor's opinion.

In speaking of the scope of an audit report, the American Institute of Certified Public Accountants, in its Codification of Statements on Auditing Procedure, expresses the relationship of the scope section of the audit report to the opinion section.

The concept that management is primarily responsible for the accuracy of the financial statements and that the independent auditor can only express his opinion on them is fundamental to an understanding of the content and wording of his report.

This report varies in form. Sometimes it includes particulars as to the scope of the work, procedures followed, details of important items in the financial statements, and other material of interest. Sometimes it is limited to a concise statement of the scope of the examination, and the independent auditor's opinion, based on such examination, as to the fairness of the financial statements it accompanies.<sup>1</sup>

The form of the report will vary in terms of the purpose of the audit and the type of business enterprise being audited.

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<sup>1</sup>Codification of Statements on Auditing Procedure, p. 15.

Eric L. Kohler distinguishes four types of reports:

The first of these is the highly standardized "short-form" report. Another is the "long-form" report, the style and content of which ties in only very generally with common standards. A third type containing "system comments" often supplements a short-form report but may be consolidated with other findings in a long-form report. Finally there are many system examinations, reviews of internal controls, and credit investigations.<sup>2</sup>

Norman J. Lenhart and Philip L. DeFliese caution against the indiscriminate use of the short-form report without adapting its wording to the circumstances appropriate to a given audit.

It is not expected that any form of report can be used in every situation. The Institute's recommended short-form report is intended as a carefully worded framework upon which can be built an understandable report appropriate to the circumstances.<sup>3</sup>

Through the years committees of the American Institute of Certified Public Accountants have modified and revised the recommended form of the standard short-form report. The Institute does allow for modifications in the actual wording of the report, as well.

While this short-form report is not always appropriate verbatim, it is recommended that the substance of its phrases be used unless inappropriate in the particular case.<sup>4</sup>

In 1947 the Committee on Auditing Procedure of the American Institute of Certified Public Accountants made its latest revision

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<sup>2</sup>Eric L. Kohler, Auditing, (New York: Prentice-Hall, Inc., 1954), p. 581.

<sup>3</sup>Norman J. Lenhart and Philip L. DeFliese, Montgomery's Auditing, (New York: The Ronald Press Company, 1957), p. 68.

<sup>4</sup>Codification of Statements on Auditing Procedure, p. 17.



of the standard short-form report. In 1964 the Local Governmental Accounting Committee of the Illinois Society proposed a statement of the auditor's opinion for a local school district.<sup>5</sup> Both forms are presented below to highlight the modifications suggested in the short form report when used for a local school district:

#### Standard short-form report

##### Scope Paragraph

We have examined the balance sheet of X Company as of December 31, 19\_\_ and the statement(s) of income and surplus for the year then ended.

Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

##### Opinion Paragraph

In our opinion the accompanying balance sheet and statement(s) of income and surplus present fairly the financial position of X Company at December 31, 19\_\_, and the results of its operations for the year then ended, in conformity with generally accepted accounting prin-

#### School district short-form report

##### Scope Paragraph

We have examined the statement of assets and liabilities arising from cash transactions of the funds indicated in the preceding table of contents of Illinois School District No. x of \_\_ County, Illinois, as of June 30, 19\_\_ and the related statements of cash receipts and disbursements and changes in fund balance(s) for the year then ended.

Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

##### Opinion Paragraph

In our opinion the accompanying statement of assets and liabilities arising from cash transactions, and the related statements of cash receipts and disbursements and changes in fund balances present fairly the assets and liabilities of the various funds of Illinois School District No. x at June 30,

<sup>5</sup>Draft, "Illinois School District No. 100 Audit Report," p. 2-c.

ciples applied on a basis consistent with that of the preceding year.<sup>6</sup>

19\_\_, arising from cash transactions and the results of cash receipts and disbursement transactions for the year then ended on a basis consistent with that of the preceding year.

The accompanying comments and schedules, though not considered necessary for a fair presentation of the financial position and results of operations, are presented mainly for supplementary analysis purposes and to give information as to the scope of the audit work. While our examination was made primarily for the purpose of formulating our opinion on the current year(s) financial statements, the additional data have been subjected to the same audit procedures and, in our opinion, are stated fairly in all material respects when considered in conjunction with the financial statements taken as a whole.<sup>7</sup>

These two recommended short-form reports will serve as a guide for further clarification of the notion of the scope of an audit. The major characteristics of the scope of an audit are contained in these two forms. Moreover, the audit reports which were reviewed in this study make reference to certain other criteria or standards which affect the scope of the audit reports.

In an effort to set forth in detail the major propositions which should characterize the scope of a school district audit, three distinct sources will, therefore, be referred to: (1) the

<sup>6</sup>Codification of Statements on Auditing Procedure, p. 16.

<sup>7</sup>Draft, "Illinois School District No. 100 Audit Report," p. 2-c.

standard short-form report; (2) the school district short-form report; and (3) certain audit reports which are part of this study. The propositions which have been culled from these sources are presented in numerical order, source by source.

In the wording of the standard short-form report, it is implied that:

1. An audit investigation preceded the preparation of the report.
2. Customary audit procedures were observed.
3. The procedures of the audit were those which the auditor considered necessary.
4. The audit was on a test basis and did not include an analysis of every transaction.
5. The accountant's conclusion was an opinion on the financial position.
6. The statements fairly presented financial position and operating results.
7. The statements were based on accepted principles of accounting.
8. There was a consistent application of accounting principles in terms of those applied in the preceding year.<sup>8</sup>

From the wording of the recommended short-form report for local school districts, it is further required that:

9. The specific titles of the statements on which the opi-

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<sup>8</sup>Kohler, p. 584.

tion was rendered should be named. This is particularly important in the audit of a school district, for the titles of certain statements indicate whether the school district is on the cash or the accrual basis of accounting.<sup>9</sup>

10. The school district should be fully described.

11. Comments and statistical data should be set apart from the independent accountant's report, or they should be specifically mentioned as being a part of the report and as having been subjected to the same auditing procedures as the rest of the statements.

The analysis of the audit reports, which have been reviewed in this study, points up these additional propositions which many auditors consider to be essential to the scope of the audit:

12. The scope and the opinion sections of the report should make specific mention of the audit of the township loanable and distributive funds.

13. Reference should be made to the compliance with The School Code of Illinois.

14. Further reference should be made to the requirements of the Illinois Financial Accounting Manual for Local School Systems.

15. Specific mention of the cash basis or accrual basis of accounting should be included in the report.

<sup>9</sup>As an illustration, it should be obvious that the short-form audit report, reprinted above, applies to the cash basis school districts. A separate short-form report is suggested for the accrual basis school district. The only difference is in the titles of the statements which are mentioned in the short-form reports.

In presenting the results of the review of the township school treasurer audit reports for the two years under study, reference will be made to these fifteen major propositions. The numbers which are inserted parenthetically in the following tables and text material refer to the number previously ascribed to the proposition under study.

#### DATA ON WHICH OPINION WAS RENDERED

Table 27 summarizes the descriptive wording chosen by the independent auditors for the financial statements (9 and 11) on which they rendered their opinion.

For fiscal year ended June 30, 1963, fifteen different wordings were chosen for the twenty-seven township school treasurer audit reports. Two wordings were used four times, six wordings were used twice, and the remaining seven wordings were used once.

For fiscal year ended June 30, 1964, seventeen different wordings appeared in the opinion section to describe the statements on which the opinion was rendered. One wording was used four times; another was used three times; five wordings were used twice; and the remaining ten wordings were used once. Five wordings, which were used the previous year, were not used the following year.

Table 27.--Auditors' descriptive wording of the financial statements (9 and 11) on which opinion was rendered, as contained in the opinion section of the auditors' reports for fiscal years ended June 30, 1963 and 1964.

Descriptive Wording	1963	1964
Accompanying exhibits	2	2
Accompanying balance sheet and statement of cash receipts and disbursements	2	2
Accompanying exhibits and schedules	4	0
Accompanying exhibits and supporting schedules	1	1
Accompanying financial statements	1	1
Accompanying statements	2	2
Accompanying statements of assets and liabilities arising from cash transactions	0	1
Accompanying statement of assets and liabilities arising from cash transactions and the related statements of cash receipts and disbursements and changes in fund balances.	0	1
Accompanying statement of cash receipts and disbursements	2	2
Accompanying statement of cash receipts and disbursements and details of disbursements	2	2
Accompanying statements of income and expense	1	1
Accompanying statement of township school treasurer's cash receipts and disbursements	2	1
Appended exhibits	2	2
Cash reports and supporting schedules including the comments which follow	0	3
Consolidated summary of assets and fund equities (cash basis) arising from receipts and disbursements and related consolidated statements of receipts and disbursements, taxes receivable, summary of bonds outstanding, summary of tax anticipation warrants outstanding, township distributive, exchange, and loanable funds (cash basis).	0	1
Financial statements and related exhibits	1	0
Following statements	1	1
Statements listed in the attached index	1	1
Statements mentioned above	1	1
Total	27	27

Table 28 summarizes certain general characteristics (1, 5,

6, 10, 11, 12, and 15) which should characterize the audit of the township school treasurer's office.

Table 28.--Number of township school treasurer audit reports which included certain general characteristics (1, 5, 6, 10, 11, 12, and 15) considered appropriate for the audit report of the township school treasurer for fiscal years ended June 30, 1963 and 1964.

Characteristics	1963	1964
Comments and statistical data included in the report (11)	14	22
Description of School District Numbers (10)	16	19
Description of Township School District (10)	27	27
Statement of audit investigation prior to the audit report (1)	27	27
Statement of cash or accrual basis of accounting (15)	13	14
Statement of opinion (5 and 6)	27	27
Township distributive fund audit (12)	12	13
Township loanable fund audit (12)	12	13

For fiscal year ended June 30, 1963, every audit report expressly stated that an examination preceded the actual preparation of the report (1). Every audit report stated that an opinion on the financial statements (5 and 6) was rendered. Every audit report adequately described the township school district subjected to audit, but only sixteen reports described the local school districts within the township (10). Fourteen reports presented comments and statistical data (11). Twelve reports presented data on the town-

ship loanable fund and the township distributive fund (12). Thirteen reports expressly stated that the accounting records are maintained on the cash basis of accounting (15).

For the second year under review, every audit report stated that an examination preceded the audit report (1). Every audit report expressed an opinion (5 and 6). Every audit report described the township school district which was audited (10). Nineteen reports described the local school districts (10). Twenty-two reports contained comments and statistical data (11). Thirteen reports presented data on the township loanable and distributive fund (12). Fourteen reports stated that the accounting records are maintained on the cash basis of accounting.

#### AUDIT PROCEDURES

Table 29 presents a detailed analysis of the more important and usual basic procedures performed in the audit investigation (1) prior to the preparation of the audit report, and specifically mentioned by the auditor in his report. As mentioned earlier, in Chapter III, these procedures are those suggested by the Local Governmental Accounting Committee of the Illinois Society in the "Audit Guidelines of Financial Statements of Illinois School Districts."

The data is presented under three major headings: General Procedures, Internal Controls, and Audit Procedures. It is to be noted that not every audit report contained a "Comments" section. Table 29, therefore, simply analyses the comments which were made



Table 29.--Description of comments pertaining to the more important and usual basic procedures performed during the audit investigation (1) mentioned in a total of twenty audit reports for fiscal year ended June 30, 1963 and in twenty-three reports for fiscal year ended June 30, 1964 of a total of twenty-seven reports.

Comments	1963	1964
<b>General Procedures</b>		
Examination of Basic Accounting Paper	6	7
Examination of Recorded Transactions and Documents	10	12
Periodic Review by Visitation during Fiscal Year	5	6
Proration of Expenses of Treasurer's Office	3	5
Review of Minutes of Board	9	10
Testing or Sampling (4)	7	12
Township Treasurer's Bondedness	2	3
<b>Internal Controls</b>		
Cash Receipts	14	16
Cash Disbursements	9	12
Reconciliation of Bank Accounts	9	10
Imprest System of Petty Cash	6	7
Investments	10	13
Receivables	3	1
Tax Anticipation Warrants	2	4
Bonded Debt	2	7
Revenue	12	10
Expenditures	12	10
Special and Student Activity Funds	1	1
<b>Audit Procedures</b>		
Cash Receipts	12	14
Cash Disbursements	9	10
Reconciliation of Bank Accounts	4	10
Imprest System of Petty Cash	5	4
Investments	12	12
Receivables	1	1
Tax Anticipation Warrants	5	3
Bonded Debt	11	12
Revenue	9	9
Expenditures	7	7
Special and Student Activity Funds	3	2

by the auditors relative to their investigation. No conclusions should be proposed for those reports wherein the auditor was silent about specific procedures employed in his investigation.

For fiscal year ended June 30, 1963, twenty audit reports contained comments relative to the more important and usual basic procedures performed during the audit investigation. These comments are summarized in Table 29.

For the second year under review, twenty-three audit reports contained comments concerning the more important and usual basic procedures performed during the audit investigation.

#### NORMATIVE CRITERIA

As stated and explained earlier, the independent auditor has many criteria which guide his work and influence his opinion on the financial statements. These criteria have been developed by the American Institute of Certified Public Accountants, the two committees of the Illinois Society previously referred to, and the committee functioning within the State of Illinois which has prepared the Illinois Financial Accounting Manual for Local School Systems. Tables 30, 31, 32, 33, and 34 present various studies on the statements made by the auditors in their reports concerning the compliance with these standards as determined through their audit investigation.

The following selection explains the desirability of the auditor's reference to the criteria provided by special regulatory

bodies, such as proposed in The School Code of Illinois and the Illinois Financial Accounting Manual for Local School Systems:

Another type of problem arises with respect to nonprofit organizations, such as municipalities, educational institutions, and hospitals, which may follow special accounting practices evolved and recommended by representative bodies in those fields. As indicated previously, "generally accepted accounting principles," as used in the short-form report, apply to business enterprises organized for profit. Accordingly, when the independent auditor is asked to report on financial statements of nonprofit organizations, and if the statements have been prepared in accordance with special practices promulgated by an authoritative body in that field which deviate in important respects from generally accepted accounting principles for business organizations, he should report that the statements have been prepared in accordance with generally accepted accounting principles for universities, hospitals, etc. However, in the authors' opinion the auditor's report or the statements themselves should include explanations of the character of the deviations from generally accepted accounting principles for business organizations.<sup>10</sup>

Table 30 presents information concerning the statements made by the auditors in the scope section of their reports. Six standards are analysed for the two years.

Table 30.--Auditors' references to normative criteria as stated in the scope section of the audit reports for fiscal years ended June 30, 1963 and 1964.

Normative Criteria	1963	1964
Auditing Standards (2)	24	25
Tests of Accounting Records (4)	22	26
Auditing Procedures (3)	22	23
Specific Procedures (3)	3	3
<u>The School Code of Illinois</u> (13)	8	6
<u>The Illinois Financial Accounting Manual for Local School Systems</u> (14)	7	7

<sup>10</sup>Lenhart and DeFliese, p. 89.

For fiscal year ended June 30, 1963, twenty-four audit reports made mention of auditing standards (2). In twenty-two cases tests of accounting records (4) and general auditing procedures (3) were mentioned. In three cases specific auditing procedures (3) were described. The School Code of Illinois (13) was referred to in eight cases. The Illinois Financial Accounting Manual for Local School Systems (14) was mentioned in seven reports.

For the second year under review, twenty-five audit reports referred to auditing standards (2). Twenty-six reports mentioned tests of accounting records (4). In twenty-three cases general auditing procedures (3) were mentioned. In three cases certain specific procedures (3) were described. The School Code of Illinois (13) was referred to in six cases, and the Illinois Financial Accounting Manual for Local School Systems (14) was mentioned in seven reports.

Table 31 presents information concerning the statements made by the auditors in the opinion section of their reports. Four standards are analysed for the two year study.

Table 31.--Auditors' references to normative criteria as stated in the opinion section of the audit reports for fiscal years ended June 30, 1963 and 1964.

Normative Criteria	1963	1964
Accounting Principles (7)	8	7
Consistency with Preceding Year (8)	9	8
<u>The School Code of Illinois</u> (13)	5	4
<u>The Illinois Financial Accounting Manual for Local School Systems</u> (14)	6	11

For fiscal year ended June 30, 1963, eight reports mentioned accounting principles (7). Nine reports stated that these principles were applied on a basis consistent with that of the preceding year (8). Five reports made mention of The School Code of Illinois (13). Six reports referred to the Illinois Financial Accounting Manual for Local School Systems (14).

For the second year under review, seven reports referred to accounting principles (7). Eight reports stated that these principles were applied on a basis consistent with that of the preceding year (8). Four reports referred to The School Code of Illinois (13) and eleven referred to the Illinois Financial Accounting Manual for Local School Systems (14).

As stated earlier, certain audit reports for both years under study contained special comments relative to the investigation which preceded the preparation of the audit report. In these special comments, certain auditors included statements pertaining to specific standards. Table 32 summarizes the comments made.

Table 32.--Auditors' references to normative criteria as stated in the comments section of the audit reports for fiscal years ended June 30, 1963 and 1964.

Normative Criteria	1963	1964
<u>The School Code of Illinois</u> (13)	5	4
<u>The Illinois Financial Accounting Manual for Local School Systems</u> (14)	3	5

For fiscal year ended June 30, 1963, five reports made mention of The School Code of Illinois (13) and three reports made mention of the Illinois Financial Accounting Manual for Local School Systems (14).

For the second year under review, four reports mentioned The School Code of Illinois (13) and five reports made mention of the Illinois Financial Accounting Manual for Local School Systems. (14).

Tables 33 and 34 have been prepared to highlight the trend of mentioning The School Code of Illinois (13) and the Illinois Financial Accounting Manual for Local School Systems (14) as normative criteria.

Table 33 indicates the number of township school treasurer audit reports which mentioned The School Code of Illinois and shows in which section of the report mention was made.

Table 33.--Auditors' reference to The School Code of Illinois as a normative criterion as stated in the scope, opinion, and comments section of the township school treasurer audit reports for fiscal years ended June 30, 1963 and 1964.

Place of mention	1963	1964
Scope Section	8	6
Opinion Section	5*	4*
Comments Section	5*	4*

\*Include one report which mentions The School Code of Illinois both in opinion section and in comments section.

For fiscal year ended June 30, 1963, The School Code of Illinois was mentioned in seventeen distinct reports, and in one of the reports it was mentioned twice. In eight reports it was mentioned in the scope section; in four reports it appeared in the opinion section, and in four reports it appeared in the comments section. In one audit report, it was mentioned in both the opinion and the comments section.

For fiscal year ended June 30, 1964, The School Code of Illinois was mentioned in thirteen reports, and in one of the reports it was mentioned twice. In six reports it was mentioned in the scope section. In three reports it appeared in the opinion section and in the comments section. In one audit report, it was mentioned in both the opinion section and in the comments section.

Table 34 summarizes the number of audit reports which mentioned the Illinois Financial Accounting Manual for Local School Systems and shows in which section of the report the mention was made.

For fiscal year ended June 30, 1963, the Illinois Financial Accounting Manual for Local School Systems was mentioned in fifteen township school treasurer audit reports, and in one of the reports it was mentioned twice. In seven reports it was mentioned in the scope section; in five reports it appeared in the opinion section, and in two reports it appeared in the comments section. In one audit report, it was mentioned in both the opinion section and in the comments section.

Table 34.--Auditors' reference to the Illinois Financial Accounting Manual for Local School Systems as a normative criterion as stated in the scope, opinion, and comments section of the township school treasurer audit reports for fiscal years ended June 30, 1963 and 1964.

Place of mention	1963	1964
Scope Section	7	7
Opinion Section	6*	11*
Comments Section	3*	5*

\*Include one report which mentions the Illinois Financial Accounting Manual for Local School Systems in both the opinion section and in the comments section

For the second year under review, the Illinois Financial Accounting Manual for Local School Systems was mentioned in twenty-two reports, and in one report it was mentioned twice. In seven reports it appeared in the scope section; in ten reports it was mentioned in the opinion section, and in four reports it appeared in the comments section. In one report, it appeared in both the opinion section and in the comments section.

Which township school treasurer's records are maintained on the cash basis or the accrual basis of accounting can be readily ascertained from the titles of the statements which are part of the individual audit reports. Nonetheless, an interesting part of this study is a consideration of the number of school district auditors which mention the cash basis or the accrual basis of accounting (9) explicitly in their audit reports. Previous discus-



sion of these two bases has been presented in Chapter I, with the strong recommendation for the accrual basis of accounting voiced by the Committee on Standards of Reporting of the Illinois Society of Certified Public Accountants.

Reference to Table 16, Chapter IV, will indicate that in all but two reports for fiscal year ended June 30, 1963 the terms, cash or receipts and disbursements, were used in the titles of statements which contained information recommended to appear on the Statement of Receipts and Disbursements for the cash basis of accounting or on the Statement of Revenue and Expenditures for the accrual basis of accounting. One statement was entitled Statement of Fund Transactions and Fund Balances. An analysis of this statement disclosed the use of the terms, receipts and expenditures, indicating that the cash basis of accounting was used. In the other statement, entitled Combined Statement of Revenues and Expenditures, the auditor clearly indicated that the township school treasurer's records were maintained on the cash basis of accounting, but that certain adjusting entries were made by the auditor to convert these records to the accrual basis of accounting.

Table 16 also indicates for fiscal year ended June 30, 1964 that every audit report used the terms, cash or receipts and disbursements, in the titles of statements which contained information recommended to appear on the Statement of Receipts and Disbursements for the cash basis of accounting.

Table 35 summarizes the number of township school treasur-

er audit reports which make explicit mention of the cash or the accrual basis of accounting.(9).

Table 35.--Auditors' comments on the cash or the accrual basis of accounting (9) as stated in the scope, opinion, or comments section of the township school treasurer audit reports for fiscal years ended June 30, 1963 and 1964.

Place of mention	1963	1964
Scope Section	3*	5
Opinion Section	12	11
Comments Section	1	2

\*Only one district audit report was presented on the accrual basis of accounting. Although the books and records were maintained on the cash basis, the auditor adjusted the cash basis so as to render his report on the accrual basis of accounting.

For fiscal year ended June 30, 1963, there were sixteen audit reports with such a comment. The comment appeared in the scope section in three reports, in the opinion section in twelve reports, and in the comments section in one report.

For the second year under review, eighteen audit reports contained such a comment: five in the scope section; eleven in the opinion section; and two in the comments section.

#### LIMITATIONS, EXCEPTIONS, EXPLANATIONS, AND RECOMMENDATIONS

An analysis of the audit reports for the two years under review discloses certain comments made by the auditor which: (1) expressly limit the scope of his investigation and report; (2)

describe failures, short-comings, or exceptions to accepted principles of accounting; (3) explain certain aspects of the audit investigation; or (4) recommend specific changes in internal controls, in accounting practices, or in the reporting function. The specific comments made by the auditors in their reports are recorded below. As indicated in Table 36, fourteen audit reports contained a total of twenty-seven such comments for fiscal year ended June 30, 1963, and thirteen reports contained a total of thirty-seven such comments for fiscal year ended June 30, 1964.

Eight limitations were recorded for fiscal year ended June 30, 1963, and eleven were recorded for the following year.

The eight limitations which appeared on seven different audit reports in 1963 were these:

1. Detailed supporting vouchers and other documents supporting cash disbursements of School District No. x were examined by another CPA, who has issued an unqualified opinion and report.

2. We did not examine records of non-district funds such as Student Activities, Credit Unions, etc., as we did not consider such activities to be within the scope of this engagement.

3. We did not refer to payrolls, invoices, and other supporting data in the files of the school districts except as to      Elementary School District No. x, as to which we have made an audit at that district's request. As to the examination of supporting data referred to above in respect to the other districts, we have relied on reports of examinations of other independent ac-

Table 36.--Summary of the number of township school treasurer audit reports which contained comments concerning limitations, exceptions, explanations, and recommendations for fiscal years ended June 30, 1963 and 1964.

Township	Fiscal Year Ended June 30, 1963				Fiscal Year Ended June 30, 1964			
	Limita- tions	Excep- tions	Explana- tions	Recommendations	Limita- tions	Excep- tions	Explana- tions	Recommendations
T42-R9					1		1	
T42-R10						1	2	
T42-R11		1						
T42-R12						1	1	
T42-R13								
T41-R10								
T41-R11	1				1	2		
T41-R12		1						
T41-R13		1				1	1	
T41-R14					1			
T40-R12	1	2		4	1	1		3
T40-R13								
T39-R12			1				1	
T39-R13			1				1	
T38-R12	1				1			
T38-R13	1			7				7
T37-R11	1							
T37-R12								
T37-R13								
T37-R14								
T36-R12								
T36-R13		1				2		
T36-R14								
T36-R15	2				5			
T35-R13								
T35-R14	1				1	1		
T35-R15								
Totals	8	6	2	11	11	9	7	10

countants submitted to the School Treasurer.

4. We did not examine records of non-district funds such as "Student Activities" as we did not consider such activities to be within the scope of our engagement.

5. A report of our examination of the Activity Fund is being made under separate cover.

6. Our scope was limited in that we did not verify beginning district balances at July 1, 1960 and prior, either by fund or in total.

7. We did not verify the District State Aid Claims because of the examination provided by the State of Illinois under Article I, Section 2-3.32 of the Illinois School Code, as revised.

8. Beyond assuring ourselves that all liabilities accruing during the year for bond redemptions and coupons were paid to the authorized Paying Agents for the respective issues, we did not undertake to make an accounting for payments made by the latter from such funds.

The eleven limitations which appeared on seven township school treasurer audit reports in 1964 were these:

1. A separate examination was made of the Activities and Imprest Fund. Separate reports of these examinations have been forwarded to the School District.

2. Detailed supporting vouchers and other documents supporting cash disbursements of District No. x were examined by another CPA, who issued an unqualified opinion and report, except

for accountability of fixed assets.

3. No examination was made of the tax rolls of the respective districts.

4. Attention is directed to the fact that the township school treasurer maintains his books on a cash basis and that the accounts payable reported to the school treasurer are the representations of the individual school districts and were not verified by us.

5. We did not refer to payrolls, invoices, and other supporting data in the files of the school districts except as to \_\_\_ Elementary School District No. x, as to which we have made an audit at that district's request. As to the examination of supporting data referred to above in respect to the other districts, we have relied on reports of examinations by other independent accountants submitted to the School Treasurer.

6. Our scope was limited in that we did not satisfy ourselves that the district balances affected by transactions prior to July 1, 1960 were fairly stated either by fund or in total.

7. We did not verify the district's State Aid Claims because of the examination provided by the State of Illinois under Article 1, Section 2-3.32 of the Illinois School Code, as revised.

8. We did not verify the Imprest Fund of Districts x and x, nor did we verify the Student Activity Fund of District x, all of which were audited by other independent CPA's.

9. We did not examine the underlying documents relating to

the cash transactions in District x, which was conducted by another independent CPA, whose report has been reviewed by us.

10. We did not verify the budgets appearing on the district's detailed reports.

11. Beyond assuring ourselves that all liabilities accrued during the year for bond redemptions and coupons were paid to the authorized Paying Agents for the respective issues, we did not undertake to make an accounting for payments made by the latter from such funds.

Only six exceptions were recorded for fiscal year ended June 30, 1963, whereas nine were recorded for the fiscal year ended June 30, 1964.

The six exceptions which appeared on five different audit reports in 1963 were these:

1. It was noted that in District No. x deposits of \$728.91 from sources other than Board Reimbursements were made to the Imprest Fund. This practice is contrary to the Illinois School Financial Manual.

2. The internal control of cash, securities, and expenditures maintained in the office of the Township Treasurer was found to be satisfactory with the exception that the prescribed biennial audits of the individual school districts were not performed. We have been assured by the Township Treasurer that these audits will be made during the current year.

3. Cash receipts of school and student activities and lunch

programs originate from numerous sources and generally are not subject to accounting control prior to recording in the accounts. It was not possible, therefore, to determine independently that all amounts received had been recorded.

4. With the exception of District x, all Working Cash Funds of the several districts were at their respective established amounts at June 30, 1963.

5. Provision of the School Code (Chapter 122, Section 10-23.5). In our examination, we have found in many of the districts that the provisions are not being carried out. The monthly report and annual summary are not submitted to the Treasurer and the persons to whom the expenditures are made are not disclosed.

6. The Imprest Funds of each school district were examined and found to be handled properly, excepting certain school districts which did not return the funds to the Treasurer's offices at the end of the year. The districts . . . are as follows: x, x, x, and x.

The nine exceptions which appeared in seven different audit reports in 1964 were these:

1. In returning the above (imprest) funds to the Treasurers prior to June 30, 1964 the \$22,675 was incorrectly credited to the Special Activities account instead of to the Treasurer's account. These funds have now been transferred to the Treasurer's account.

2. Cash receipts of activities and lunch programs origi-



nate from numerous sources and generally are not subject to accounting control prior to recording in the accounts. It was not possible, therefore, to determine independently that all amounts received had been recorded.

3. Control over and information in support of fixed assets in District No. x and prior to July 1, 1947 in District No. x have not been maintained since the creation of the districts.

4. In our opinion, except for accountability over fixed assets, the statements are fairly representative.

5. Cash receipts of school and student activities and lunch programs originate from numerous sources and generally are not subject to accounting control prior to recording in the accounts. It was not possible, therefore, to determine independently that all amounts received had been recorded.

6. Provision of the School Code (Chapter 122, Section 10-23.5). In our examination, we have found in many of the districts that these previous provisions are not being carried out. The monthly report and annual summary are not submitted to the Treasurer and the persons to whom the expenditures are made are not disclosed.

7. During the course of our examination, we noted that the Imprest fund of District No. x was not returned to the full amount of the fund to the Treasurer's office at the end of the year.

8. School District No. x has not handled the Imprest

fund correctly. The fund has not been closed out for more than one year.

9. During the year under review, the County Treasurer of Cook County made an erroneous payment to the Township Treasurer in the amount of \$46,322.71. This amount is being held in reserve pending a final settlement.

A total of two explanations were recorded for fiscal year ended June 30, 1963, and a total of seven were recorded for the second year.

The two explanations which appeared on two different audit reports in 1963 were these:

1. In accordance with the treasurer's consistent practice of recording interest income at the time investments are purchased, interest income in the amount of \$73,800 not yet received at June 30, 1962 was included in cash receipts for the year ended June 30, 1962 and is not included in the year ended June 30, 1963.

2. Our examination of the cash disbursements made by the Township School Treasurer for School District Nos. x, x, x, x, and x High School . . . consisted of tests to determine that such disbursements and the accounting distribution thereof were supported by orders issued by the respective school boards.

The seven explanations which appeared on six different audit reports in 1964 were these:

1. It will be noted on Schedule III-1 that the Illinois Municipal Retirement and Bond Fund tax rates developed by Cook and

McHenry counties appear high. These counties apparently overlooked the assessed valuation of merged District No. x in their computation.

2. The accounting records are maintained on a cash receipts and disbursements basis. Interim statements for operating purposes are prepared on a cash basis. However, supplemental records were sufficient to enable us to prepare the accrual Balance Sheet included herewith as Exhibit A.

3. Fixed asset values shown on the balance sheet have been built up by accumulating costs since July 1, 1946, exclusive of costs under the State Rental Program.

4. Because the School District Funds as maintained by the Treasurer are kept on a cash basis, the statements presented herewith do not reflect any accrued income or accrued expenses.

5. In accordance with the treasurer's consistent practice of recording interest income at the time investments are purchased, interest income in the amount of \$4,526 not yet received at June 30, 1964 was included in cash receipts for the year ended June 30, 1964.

6. Because the School District Funds as maintained by the Treasurer are kept on a cash basis, the statements presented herewith do not reflect any accrued income or accrued expenses.

7. Our examination of the cash disbursements made by the Township School Treasurer for School Districts No. x, x, x, x, and x High School . . . consisted of tests to determine that

such disbursements and the accounting distribution thereof were supported by orders issued by the respective school boards.

A total of eleven recommendations were recorded for fiscal year ended June 30, 1963 and a total of ten were proposed for the following year.

The eleven recommendations which appeared on two different audit reports in 1963 were these:

1. It is suggested that the balance carried in the accounts with local depositories be reduced to at least a maximum balance of \$10,000.00 in each district bank account for protection under the Federal Insurance accorded depositors in said banks.

2. It is suggested that a legal opinion be obtained as to the legality of using Working Cash Fund money for loans to funds of the District other than the Educational and Building Funds.

3. It is again suggested that the First Security Trust and Savings Bank, x, Illinois, who are the paying agents for certain bond issues for School Districts x and x, be informed that all paid and cancelled bonds and coupons should be returned to the Township School Treasurer as soon as practical so that his records are kept current.

4. We again wish to stress the importance of proper account coding in order to compile accurate reports in accordance with instructions as stated in the Illinois Financial Accounting Manual pertaining to schools.

5. Attention is directed to the provisions of the School

Code pertaining to inter-fund loans wherein it is stated that the only loans authorized between Funds are those made between the Working Cash Fund, the Educational Fund and the Building Fund.

6. Consideration should be given to the installation of controlled cash registers to record sales in the cafeteria, bookstore, etc.

7. Cash receipts for the sale of milk should be remitted intact to the Township School Treasurer. At the present time the profit from milk sales is being retained and used for the purchase of ice cream and supplies for various school parties.

8. A cash control ledger card should be maintained so that the district can at all times be apprised of the cash balance in the several funds on deposit with the School Treasurer.

9. Receipts of district funds as well as disbursements should be reconciled monthly with the School Treasurer not only by Fund totals but by the individual major categories provided by the Manual of Accounting for Schools.

10. All district minutes to be considered "official" should in all instances be properly signed by the President and Secretary of the Board of Education.

11. Although we did not make the audit of the Student Activity Fund for this district (x), we have noted that said Activity funds are being retained and used as a petty cash fund for school district purposes; and in addition these funds are being used to advance sums of money to teachers and other personnel for

travel, conventions, etc. We believe that these procedures should be discontinued. A petty cash fund can be established from the revolving fund maintained by the District.

The ten recommendations which appeared on two different audit reports in 1964 were these:

1. We again wish to repeat and direct attention to the importance of proper account coding in order to compile accurate reports in accordance with instructions as stated in the Illinois Financial Accounting Manual pertaining to schools.

2. Checks returned to the local depository bank from collections made at the school districts for "Not Sufficient Funds." The non-recovery of these N. S. F. checks represents a loss of revenue to the school district. It is imperative that steps be taken to insure that these N. S. F. checks are made good and that such transactions be kept to a minimum, if possible, perhaps by attaching a penalty charge.

3. It has been noted during the course of our examination that the operating cash funds of some School Districts appear to be insufficient in meeting the operating and other required expenditures for the district with the result that additional funds are required from the sale of tax anticipation warrants. This deficit financing, in our opinion, can be eliminated with the establishment of a Working Cash Fund or increasing the present working cash funds by a special tax levy provided specifically for this purpose as was done in several other school districts.

4. It is recommended that all district orders presented to the Township School Treasurer for payment be issued to the particular payee and not to the Township School Treasurer and that those orders covering a list of approved bills be made out as follows: "pay to the order of individual payees as listed."

5. In addition, it is further recommended that the full name of the payee be shown at all times on district orders and not "Mr. Jones" or "Mrs. Jones" as was disclosed by our examination.

6. It is suggested that more care be exercised by the respective school districts to adhere to the instructions given as to coding outlined by the Financial Accounting Manual issued by the Office of the Superintendent of Public Instruction.

7. A cash control ledger card should be maintained so that the district can at all times be apprised of the cash balance in the several funds on deposit with the School Treasurer.

8. All District Minutes to be considered "official" should in all instances be properly signed by the President and Secretary of the Board of Education.

9. Consideration should be given to the installation of controlled cash registers to record sales of the cafeteria, bookstore, etc.

10. Internal control would be improved if separate UARCO machines were used so that continuity of receipts can be controlled for both student activity purposes and for school district funds reported to the Township School Treasurer.

## CHAPTER VI

### THE CONTENT OF AUDIT REPORTS

#### INTRODUCTION

In presenting the analysis of the financial data which the independent auditors have included in their audit reports for the two years under study, a threefold approach has been selected. The content of the audit reports will be discussed under these three headings: (1) an analysis of the financial information which should appear on those statements recommended by the Local Governmental Accounting Committee of the Illinois Society of Certified Public Accountants; (2) a study of the many and varied other analyses, details, exhibits, schedules, statements, and summaries which the independent auditors included in their audit reports; and (3) a review of the responses made by the independent auditors on the questionnaires which were submitted as part of the audit requirement.

Previous reference has been made to the fourth finding of the Committee on Standards of Reporting of the Illinois Society, that "the scope and style of the reports varied to such a degree as to pose a considerable review problem for any authority charged with the responsibility of appraising the quality of reports."<sup>1</sup>

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<sup>1</sup>Letter from Harry I. Grossman, p. 4.



Although the term, content, does not appear in the wording of this finding, a study of the questionnaire developed as part of the Committee's study reveals that fourteen of the thirty-four items were concerned, either directly or indirectly, with the content of the audit reports. This questionnaire appears as part of Appendix II. Items numbered from 19 to 32 are the fourteen questions which specifically regard the content of the reports. A review of the responses to these fourteen items will indicate such a high degree of variance that one might conclude that the content of the reports also posed a "considerable review problem."

As a result of this finding, the Committee on Standards of Reporting of the Illinois Society recommended the preparation of a model report form which would serve as a guide to the school district auditors in the preparation of the audit reports. In keeping with the traditional appeal of the American Institute of Certified Public Accountants against the excessive uniformity in auditing procedures, the Local Governmental Accounting Committee of the Illinois Society stressed the use of the model audit report drafts as a guide to the auditor and not a substitute for the auditor's individual judgment in the conduct of the audit or in the preparation of the audit report.<sup>2</sup>

Gordon N. Arlett's 1962 study of California school district audit programs reported that "the format of California au-

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<sup>2</sup>Letter from Robert L. Coker, p. 1.

dits does not facilitate audit comparisons or analysis,"<sup>3</sup> and he recommended a study "of the advisability of adopting a more standard format for the annual audit report,"<sup>4</sup>

Robert W. Zondler's study in the same year of the audit program in Los Angeles County recommended that "the scope and required content of the audit and the audit report . . . be expanded."<sup>5</sup> Although this recommendation apparently was based on his findings of the presence or absence of only eight criteria in the seventy-six audit reports which he investigated, he does argue for a "required content" of the audit reports.

The recommendations of these three studies point up a definite deficiency in the audit reports for those school districts which served as the basis of the studies. This deficiency could be termed a lack of uniformity in the content of the audit reports, even though the recommendations were for: (1) a model audit report; (2) a more standard format; and (3) a required content.

The true import of these recommendations is best understood in the context of what the experienced accountant and auditor know about the uniform practices which are to be observed in the accounting and auditing function for commercial enterprises,

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<sup>3</sup>Gordon N. Arlett, p. 79.

<sup>4</sup>Ibid., p. 148.

<sup>5</sup>Robert W. Zondler, p. 67.

as well as in the preparation of financial statements and reports for such business organizations. The experienced accountant and auditor know the many improvements which have resulted in the preparation of financial statements from the joint efforts of professional organizations and governmental agencies. Simply stated, uniformity of accounting practice and financial reporting for commercial institutions does exist, and continued efforts are being made to foster even greater advances, as the following statement shows:

The authors by no means suggest that progress in the development of more useful financial statements should cease. Management and independent public accountants will continue to strive for improvement in form and content of data furnished to stockholders.<sup>6</sup>

Robert L. Leonard admits of the need for continued research. In contrasting the highly developed system of accounting practice as found in business organizations with that of governmental agencies, he concluded that: "Government today needs a system of financial management as efficient as that enjoyed by big business, and administered as competently."<sup>7</sup> He outlined three steps for the improvement of governmental accounting: "Improve internal control; bring into government more competent accountants; and reduce the cost, where possible, of the accounting function."<sup>8</sup>

Russell Taussig proposes the over-all improvement of governmental financial reports when his research disclosed that:

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<sup>6</sup>Lenhart and Defliese, p. 97.

<sup>7</sup>Robert L. Leonard, "Accounting Needs of Local Government," The Journal of Accountancy, (November, 1959), p. 57.

<sup>8</sup>Ibid., p. 58.

"Expansion in state and local governmental operations has been one of the most significant features of the U. S. economy in the postwar period. . . . This growth has been attended by increasing criticism of governmental accounting, particularly published reports."<sup>9</sup>

These recommendations likewise take on greater significance when related to the ever-increasing high quality of the accounting and auditing function for governmental units. Through the efforts of the National Committee on Governmental Accounting of the Municipal Finance Officers Association of the United States and Canada and its advisory committees, representative of nine other major professional associations one of which is the American Institute of Certified Public Accountants, a high degree of uniformity has been achieved.<sup>10</sup> In its 1951 publication, Municipal Accounting and Auditing, principles and procedures for the accounting, budgeting, auditing, and reporting functions of governmental units were proposed.

The suggestions offered by the Committee regarding municipal audit procedures centered around these four areas of concern; (1) auditing standards; (2) the scope of a general audit; (3) the content of the audit report; and (4) the suggested, detailed audit procedures to be employed in the general audit.<sup>11</sup>

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<sup>9</sup>Russell Taussig, "Governmental Accounting: Fund Flow or Service Cost?" The Accounting Review, XXXVIII, (July, 1963), p.562.

<sup>10</sup>Municipal Accounting and Auditing, pp. ix-x.

<sup>11</sup>Ibid., p. 186.

Just as there is a marked similarity between the Committee's position and that of the American Institute of Certified Public Accountants on the entire auditing function, so is there to be observed in the auditing philosophy of the Local Governmental Accounting Committee of the Illinois Society in its model audit report drafts and guidelines for the school district auditor a definite dependence on the position of the National Committee on Governmental Accounting of the Municipal Finance Officers Association.

This interdependence and agreement of professional associations on the recognition of problem areas and on the approaches to solutions should result in the upgrading of the auditing function for school districts, just as their combined efforts have affected the improved auditing process for governmental units.

A word of caution is proposed by Arthur N. Lorig against the imprudent use of the recommendations of professional associations:

Even the recommendations of authoritative accounting bodies should not be followed blindly. It is always appropriate and wise to seek to know why a procedure should be followed. It is possible that a procedure useful to many governments may not be advantageous to others and hence a wasteful activity for this latter group. . . . Accounting is merely an art - a tool for providing useful information. Governmental accountants should constantly look at their work critically and realistically and be ever ready to make changes where improved results or efficiency would follow.<sup>12</sup>

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<sup>12</sup>Arthur N. Lorig, "Suggested Improvements in Governmental Accounting," The Accounting Review, XXXVIII, (October, 1963) p. 759.

An analysis of the financial data presented in an audit of a commercial enterprise or a governmental unit would disclose a rather high degree of uniformity in the content of such audit reports. Such a study would point up many differences in the form and the scope of the audit reports, depending on the terms of the auditor's contract and the limitations of the audit investigation. However, the content of the audit report, statement by statement, would obviously follow the major recommendations of the American Institute of Certified Public Accountants for the commercial enterprise and the suggestions of the Municipal Finance Officers Association of the United States and Canada for the governmental units.

However, since the recommendations of the Local Governmental Accounting Committee of the Illinois Society for the content of the school district audit within the State of Illinois have been so recently prepared, this present study will concern itself with an analysis of the content of such audit reports for the fiscal year ended prior to the preparation of the recommendations and for the fiscal year ended subsequent to their preparation and publication.

The information in Table 37 is presented to point out the manner in which the independent auditors have titled and classified the financial statements included in the audit reports. A total of six different terms have been used in the audit reports: analyses, details, exhibits, schedules, statements, and summaries;

but only three appear in the model audit report drafts: exhibits, schedules, and statements. From a study of the content of all six forms of presentation, it is obvious that many of these terms may be and are used interchangeably, though no pattern of use of these terms can be determined. Only one of the terms has been defined in the Illinois Financial Accounting Manual for Local School Systems. A schedule is defined therein as a supporting, explanatory, or supplementary analysis accompanying or supporting an account or statement.<sup>13</sup>

The intent of the Local Governmental Accounting Committee of the Illinois Society seems to be that: (1) a statement represents the grouping of related accounts for a specific purpose; (2) a schedule presents an analysis which supports or explains an account or a statement; and (3) an exhibit is a generic term which is used to refer to a statement or schedule, when numbered according to some pattern.

Accordingly, analyses, details, and summaries seem to be synonymous with schedules, for they serve the same purpose as a schedule. Each exhibit could and perhaps should be further classified as either a statement or a schedule, but for the purpose of reference, the term, exhibit, would still be used in much the same manner as a page number, table number, or chart number.

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<sup>13</sup>Illinois Financial Accounting Manual, p. 129.

Table 37.--Number of analyses, details, exhibits, schedules, statements, and summaries, totals of each for all districts, and total of all for each district, as contained in audit reports for fiscal years ended June 30, 1963 and 1964.

Township	Fiscal Year Ended June 30, 1963							Fiscal Year Ended June 30, 1964						
	Ana-ly-ses	De-tails	Ex-hi-bits	Sche-dules	State-ments	Sum-ma-ries	To-tals	Ana-ly-ses	De-tails	Ex-hi-bits	Sche-dules	State-ments	Sum-ma-ries	To-tals
T42-R9			5	8			13			5	8			13
T42-R10			3	5			8			2	6			8
T42-R11			5	8			13			28	2			30
T42-R12			23		4	1	28			25		3	1	29
T42-R13					8	8	16					10	10	20
T41-R10			4	8			12			3	8		1	12
T41-R11					17		17					21	1	22
T41-R12			7	4			11				4	6	1	11
T41-R13			30		4		34			30		4		34
T41-R14				7	1	6	14					4	4	8
T40-R12	14			23	2		39	24			12	2	2	40
T40-R13			6		2		8			6		1	2	9
T39-R12			1	2	10	4	17			1	16		1	18
T39-R13		1	1		7	8	17		1			14	2	17
T38-R12		10	10	10	12	12	54		22		7	18	24	71
T38-R13	4			1	4	6	15	6			2	3	6	17
T37-R11		3	1	4	1	4	13		2		8	4	2	16
T37-R12		6		10	4	8	28		7		10	6	8	31
T37-R13					19		19					29		29
T37-R14				2	2	1	5				2	2	1	5
T36-R12				4	25	1	30				4	22		26
T36-R13		6		2	17		25		8		1	26	1	36
T36-R14				30	70		100				30	72		102
T36-R15			6				6			7	20		15	42
T35-R13			3	10	32		45				8	32		40
T35-R14			1	10	3	1	15			2	10	2	1	15
T35-R15				1	4		5				1	3		4
Totals	18	26	106	149	248	60	607	30	40	109	159	284	83	705



For fiscal year ended June 30, 1963, a total of eighteen analyses, twenty-six details, 106 exhibits, 149 schedules, 248 statements, and sixty summaries were found in the audit reports, for a total of 607 such presentations.

For the second year under review, a total of thirty analyses, forty details, 109 exhibits, 159 schedules, 284 statements, and eighty-three summaries were found, for a total of 705 such presentations.

#### STATEMENTS RECOMMENDED IN MODEL AUDIT REPORT DRAFTS

The two drafts of the model audit reports, entitled "Illinois School District No. 100 Audit Report," one for the cash basis of accounting and the other for the accrual basis, will serve as the guide for the first analyses of the contents of the audit reports under review.

The first statement which appears for the cash basis of accounting is entitled the Statement of Assets and Liabilities Arising from Cash Transactions. The corresponding statement for the accrual basis of accounting is entitled "Balance Sheet - All Funds."

Table 38 is arranged in such a manner as to indicate in Column 1 the account titles as they appear on the Statement of Assets and Liabilities Arising from Cash Transactions. Column 2 presents the number of township school treasurer audit reports which contained information of the individual accounts for fiscal year

ended June 30, 1963, and column 3 presents the information for fiscal year ended June 30, 1964. It should be noted that not all audit reports for the two years contained a statement bearing this title. For fiscal year ended June 30, 1963, no statement had this exact title. For fiscal year ended June 30, 1964, two statements were so entitled.

Table 38.--Number of township school treasurer audit reports which contained asset and liability account information as recommended to appear on the Statement of Assets and Liabilities Arising from Cash Transactions for fiscal years ended June 30, 1963 and 1964.

Account Titles	1963	1964
<b>Assets</b>		
Cash	25	26
Investments	21	25
Interfund Receivables	2	1
Land, School Building, Equipment	0	3
<b>Liabilities and Fund Balances</b>		
Tax Anticipation Warrants	1	3
Interfund Payables	1	2
Payroll Deductions Payable	2	1
Fund Balance	25	27

For fiscal year ended June 30, 1963, twenty-five audit reports presented a cash and fund balance amount; twenty-one reports showed investments; two showed interfunds receivable and payroll deductions payable; one report presented information on tax anticipation warrants and interfund payables. No reports presented information on fixed assets: land, school building, or equipment.

For fiscal year ended June 30, 1964, twenty-six reports contained a cash account; twenty-five reports showed the investments account; only one report showed an interfund receivable; and three reports presented information on fixed assets. Three reports showed information on tax anticipation warrants. Two reports indicated the amount of interfund payables; one report showed a payroll deduction payable; and all reports showed a fund balance account.

The next statement which appears for the cash basis of accounting is entitled the Statement of Receipts and Disbursements and Comparison with Budget. The corresponding statement for the accrual basis of accounting is entitled Statement of Revenue and Expenditures and Changes in Fund Balance.

It should be noted that the model audit reports present identical statements for the following funds which are maintained by the township school treasurer for the school districts within each township: the educational, building, municipal retirement, and transportation funds. In addition, the model audit report drafts for the cash basis of accounting contains similar statements for these additional funds: the bond and interest fund and the working cash fund. Under both bases of accounting, on both model audit report drafts, identical statements of cash receipts and disbursements are presented for the student activity funds.

In an effort to avoid much unnecessary duplication and to simplify this phase of the study, the individual funds maintained

by the township school treasurer for the local school districts will not be studied. Rather, as indicated by the content of Table 39, all funds will be studied together, and information will be presented to indicate the number of township school treasurer's audit reports which contain information which is recommended to appear on the Statement of Receipts and Disbursements, regardless of the number of individual funds maintained.

Table 39.--Number of township school treasurer audit reports which contained information as recommended to appear on Statement of Receipts and Disbursements for fiscal years ended June 30, 1963 and 1964.

Account Titles	1963	1964
Beginning Balance	26	27
Receipts	27	27
Revenue Receipts	12	16
Non-Revenue Receipts	11	16
Disbursements	23	27
Operating Disbursements	15	15
Non-Operating Disbursements	13	15
Ending Balance	23	27

For fiscal year ended June 30, 1963, the audit reports of twenty-six township school treasurers showed beginning balances and twenty-three showed ending balances. All twenty-seven showed receipts and twenty-three showed disbursements. Twelve reports classified certain receipts as revenue receipts and eleven classified certain receipts as non-revenue. Fifteen reports classified

disbursements as operating disbursements and thirteen classified certain disbursements as non-operating.

For the second year under review, all twenty-seven reports showed a beginning balance, receipts, disbursements, and ending balances. Sixteen reports distinguished between revenue and non-revenue receipts, and fifteen reports did the same for operating and non-operating disbursements.

Table 40 summarizes the Statement of Receipts and Disbursements still further. In both model audit report drafts, a supplementary statement is presented which classifies in detail the major account classifications which appear in the disbursements section of this statement. The recommended title for this statement is Statement of Disbursements and Comparison with Budget. As an illustration, the account title, Administration, which would appear on the Statement of Receipts and Disbursements reappears on the Statement of Disbursements as a control account, made up of these subsidiary accounts: salaries, contractual services, supplies, stationery, and other expense. For each of these subsidiary accounts, both budgeted and actual figures are shown, as they were shown for the control account on the Statement of Receipts and Disbursements.

Table 40, therefore, summarizes the number of township school treasurer audit reports which contained additional information on the Statement of Receipts and Disbursements and the Statement of Disbursements.

Table 40.--Number of township school treasurer audit reports which contained additional information as recommended to appear on the Statement of Receipts and Disbursements and the Statement of Disbursements for fiscal years ended June 30, 1963 and 1964.

Additional Information	1963	1964
Detailed Statement of Disbursements:		
Included in Statement of Receipts and Dis-		
bursements	6	5
Appeared as a Separate Schedule	<u>10</u>	<u>16</u>
Total of Such Statements	16	21
Other Data regarding Both Statements:		
Use of Specific Account Titles	27	27
Use of Account Numbers	10	8
Comparison of Budget with Actual	6	7

For fiscal year ended June 30, 1963, a total of sixteen audit reports contained a detailed Statement of Disbursements, and ten of these appeared as a separate schedule; the remaining six were included in the Statement of Receipts and Disbursements. Moreover, the audit reports for only six township school treasurers compared actual receipts and disbursements with budgeted figures. All twenty-seven reports showed specific account titles for each receipts and disbursements accounts, whereas only ten audit reports presented the account number for the accounts, although the use of the account number is not required in terms of the recommendations of the model audit report drafts.

For the second year under review, a total of twenty-one audit reports contained a detailed Statement of Disbursements:

five of these were included in the Statement of Receipts and Disbursements, and sixteen appeared as separate schedules. The audit reports for seven township school treasurers compared the actual receipts and disbursements with the budgeted figures. All twenty-seven reports used account titles for each receipt and disbursement, but only eight reports used account numbers.

Table 41 summarizes the number of township school treasurer audit reports which presented information relative to Student Activity funds for the two years under review. Section 10-20.19 of The School Code of Illinois authorizes the establishment of such funds:

It shall be lawful for the school board by resolution to establish revolving funds for school cafeterias, lunch rooms, athletics, petty cash or similar purposes. provided such funds are in the custody of an employee who shall be bonded as provided in Article 8 of this Act for bonding school treasurers and who shall be responsible to the board and to the treasurer, subject to regular annual audit by licensed public accountants and other such examinations as the school board shall deem advisable and kept in accordance with regulations prescribed by the Superintendent of Public Instruction.<sup>14</sup>

Table 41.--Number of township school treasurer audit reports which contained information on Student Activity funds for fiscal years ended June 30, 1963 and 1964.

Type of Data	1963	1964
Ownership of Funds Explained	1	2
Information Presented as:		
Separate Schedule	4	4
Included in Statement of Receipts and Disbursements	2	1
Specifically excluded from Scope of Audit	1	3

<sup>14</sup>Illinois, School Code of Illinois, 1963, p. 93.

For fiscal year ended June 30, 1963, twenty-audit reports made no mention of the student activity funds, one report explicitly excluded such funds from the scope of the audit, and of the six reports containing an audit of such funds two reports included the information within the Statement of Receipts and Disbursements, and four presented the information as a separate schedule.

For the second year under review, seventeen reports failed to mention student activity funds, three reports excluded such funds from the scope of the audit, and of the remaining seven reports one report included the information within the Statement of Receipts and Disbursements, and five presented the information as a separate schedule.

Table 42 studies the number of township school treasurer audit reports which contained information relative to Student Activity funds as recommended to appear on such a report by the Local Governmental Accounting Committee of the Illinois Society.

Table 42.--Number of township school treasurer audit reports which contained information as recommended to appear on the Statement of Cash Receipts and Disbursements: Student Activity Funds for fiscal years ended June 30, 1963 and 1964.

Account Titles	1963	1964
Beginning Balance	6	7
Transactions		
Receipts	3	4
Disbursements	3	4
Transfers	1	0
Ending Balance	5	6



For fiscal year ended June 30, 1963, six reports showed the beginning balance of the funds, three reports presented the details of receipts and disbursements, one report indicated the transfer of certain assets from the funds, and five reported an ending cash balance.

For the second year under review, seven reports gave the beginning balance of the funds, four reports presented the details of receipts, and disbursements, and six reports showed the ending cash balance.

The first schedule contained in the model audit report drafts is entitled Bonded Debt Data. This schedule contains two sets of information. The one concerns the individual bond issues for the school district and includes for each issue the following information: date of issue, interest rate, interest dates, the amount originally issued, the amount outstanding at the beginning of the fiscal year, the amount issued during the year, the amount paid or retired in the year, and, of the amount outstanding at the close of the year, that amount which is payable in the next fiscal year and in subsequent fiscal years. In addition to this information concerning each bond issue, a statement of Legal Debt Margin is included.

Table 43 summarizes the bond and interest data included in the audit reports for the two years under study, as recommended to appear in the statement of Bonded Debt Data. As stated earlier, in Chapter IV, each audit report contained some information on bonded

debt for the two years.

Table 43.--Number of township school treasurer audit reports which contained information as recommended to appear on the Bonded Debt Data schedule for fiscal years ended June 30, 1963 and 1964.

Type of Data	1963	1964
Date of issue	24	27
Interest rate	23	24
Interest dates	13	16
Amount originally issued	16	16
Amount outstanding July 1, 19__	15	17
Amount issued this current fiscal year	22	22
Amount paid or retired this current fiscal year	19	21
Amount outstanding at year end:		
Payable in next fiscal year only	0	1
Payable in subsequent fiscal years	18	19
Retirements in future years, in terms of:		
Fiscal year issued	9	10
Fiscal year due	10	15
Both fiscal year issued and fiscal year due	3	4

For fiscal year ended June 30, 1963, twenty-four reports indicated the date of issue; twenty-three showed interest rates; thirteen stated interest payment dates; sixteen showed the amount of bonds which were originally issued; fifteen indicated the amount of bonds outstanding at the beginning of the current fiscal year; twenty-two showed the total amount of bonds issued in the

current year; nineteen showed the amount which was paid or retired in the current year; and twenty-six showed the amount of bonds outstanding at the end of the current year. Of the twenty-six reports which indicated the amount of bonds outstanding at the end of the fiscal year, nineteen reports showed the amount of bond retirements which would be due in subsequent years.

For the second year under review, all twenty-seven reports indicated the date of issue; twenty-four showed interest rates; sixteen showed interest dates; and the same number indicated the amount originally issued for each issue. Seventeen reports indicated the bonds outstanding at the beginning of the current year; twenty-two showed the total bonds issued for the current year; twenty-one showed the amount of bond retirements for the current year. All twenty-seven reports showed the total bonds outstanding at the end of the current year, and twenty-two of these indicated the anticipated bond retirements in future years.

The Debt Limitation Act, as stated in The School Code of Illinois, reads as follows:

Except as hereinafter provided in this Act, no county having a population of less than 500,000 and no township, school district or other municipal corporation having a population of less than 300,000 shall become indebted in any manner or for any purpose to an amount, including existing indebtedness, in the aggregate exceeding two and one-half per centum ( $2\frac{1}{2}\%$ ) on the value of the taxable property therein, to be ascertained by the last assessment for State and county taxes, previous to the incurring of such indebtedness.<sup>15</sup>

The model audit report drafts suggest the inclusion of a

<sup>15</sup>Ibid., p. 394.

statement of Legal Debt Margin which includes the following computations: the assessed valuation multiplied by the legal debt limitation of two and one-half per cent provides the debt limit for the school district; from this debt limit is subtracted the bonded indebtedness of the school district to provide the legal debt margin. Table 44 studies the audit reports for the two years which included a Legal Debt Margin schedule.

Table 44.--Number of township school treasurer audit reports which contained information as recommended to appear on the Legal Debt Margin schedule for fiscal years ended June 30, 1963 and 1964.

Type of Data	1963	1964
Assessed valuation as of _____	2	2
Debt limit: _____% of assessed value	2	2
Less: Bonded indebtedness	2	2
Legal debt margin	2	2

For fiscal year ended June 30, 1963, only two audit reports presented a Legal Debt Margin schedule. Both schedules were presented in the form recommended by the Local Governmental Accounting Committee of the Illinois Society.

For fiscal year ended June 30, 1964, the same two district audit reports presented the suggested information in the recommended form.

The second schedule contained in the model audit report drafts is entitled Bond Maturities and Interest Requirements in

Future Years. The recommended content of this schedule is a representation for each fiscal year subsequent to the current year of the amount of bonds maturing, the interest requirements, and the combined totals of bond maturities and interest requirements.

Table 45 presents a study of those audit reports which contained this information.

Table 45.--Number of township school treasurer audit reports which contained information as recommended to appear on the Bond Maturities and Interest Requirements in Future Years schedule for fiscal years ended June 30, 1963 and 1964.

Type of Data	1963	1964
Interest Requirements in Future Years	0	1
Requirements due to Maturity in Future Years	18	19
Interest and Maturity Requirements in Future Years	1	3

For fiscal year ended June 30, 1963, eighteen audit reports showed the amount of bonds maturing in subsequent years and only one report showed the interest requirements for these years.

For the second year under review, nineteen reports showed the amount of bonds maturing in subsequent years, and three reports showed interest and maturity requirements for future years. One report showed only interest requirements for future years.

The third schedule contained in the model audit report drafts is entitled Tax Rates, Extensions, and Collections. The recommended form of this schedule lists the total assessed valuation

for the current year, as well as the tax rates for each fund and the total tax rates for all funds. The extended taxes are shown separately for each fund as well as in total for all funds. Tax extensions are then related to tax collections made prior to the beginning of each fiscal year and during each fiscal year. Tax collections are shown also as a per cent of the total taxes which were extended for each fiscal year, and the uncollected balance for each levy year is also indicated. Table 46 summarizes the number of township school treasurer audit reports which contained information on Tax Rates, Extensions, and Collections for the two years under study.

Table 46.--Number of township school treasurer audit reports which contained information as recommended to appear on the Tax Rates, Extensions, and Collections schedule for fiscal years ended June 30, 1963 and 1964.

Type of Data	1963	1964
Total Assessed Value	8	10
Tax Rates:		
For Each Fund	7	10
For All Funds	7	7
Taxes Collected:		
Total Taxes Extended	5	8
Collected - Prior to July 1, 19__	3	9
- Current Year	7	10
- Total for Year	6	11
Cumulative per cent of Taxes Collected as Related to Taxes Extended	5	6
Uncollected Balance	6	8

For fiscal year ended June 30, 1963, eight reports showed total assessed valuation; seven showed tax rates for each fund and for all funds. As for tax collections, five reports showed total taxes extended; three showed collections prior to the beginning of the fiscal year; seven showed collections during the current fiscal year; and five indicated the cumulative per cent of taxes collected as related to taxes extended. Six reports showed the balance of uncollected taxes.

For the second year under review, ten reports showed total assessed valuation. Ten showed tax rates for each fund, and seven presented rates for all funds. Eight reports showed total taxes extended; nine indicated collections made prior to the beginning of the fiscal year; ten showed collections during the current fiscal year; and six showed the cumulative per cent of taxes collected as related to taxes extended. Eight reports showed the balance of uncollected taxes.

The final schedule contained in the model audit report drafts is entitled Statement of Assessed Valuation, as Equalized. This statement simply shows the assessed valuation of real property, personal property, railroad, and other property, and total assessed valuation as equalized by the State Department of Revenue. Table 47 summarizes the number of audit reports which included the recommended information.

For fiscal year ended June 30, 1963, only one audit report contained a Statement of Assessed Valuation as Equalized. It in-

licated the value of real, personal, and railroad property, and the total assessed valuation, as equalized.

Table 47.--Number of township school treasurer audit reports which contained information as recommended to appear on the Statement of Assessed Valuation, as Equalized for fiscal years ended June 30, 1963 and 1964.

Type of Data	1963	1964
Real Property	1	2
Personal Property	1	2
Railroad Property	1	2
Other	0	0
Total Assessed Valuation	1	2

For the second year under review, two audit reports contained this statement, and showed the value of real, personal, and railroad property, and total assessed valuation as equalized.

#### OTHER FINANCIAL DATA INCLUDED IN AUDIT REPORTS

Since this study is concerned with the annual audit program within Cook County, Illinois, the only Class II county school unit within the State, mention must be made of the content of the two funds which are unique to Cook County: the township distributive and the township loanable funds. A discussion has already been presented in Chapter I and Chapter IV of the nature of these funds and the audit requirements for both funds. It is now necessary to study the content of the statements which summarize the transactions involving these funds as presented in the township school treasurer's audit reports for the two years under study.



Table 48 summarizes the information contained in the audit reports for the township distributive fund.

Table 48.--Number of township school treasurer audit reports which contained information pertaining to the township distributive fund for fiscal years ended June 30, 1963 and 1964.

Account Titles	1963	1964
Beginning Balance	21	27
Receipts	21	25
Disbursements	21	25
Transfers	7	6
Ending Balance	18	25
Other Data:		
Detailed Source of Transactions	13	18
Description of Ending Balance: Cash	16	20
Securities	6	7
None	2	5

For fiscal year ended June 30, 1963, twenty-one reports showed a beginning balance as well as receipts and disbursements. Seven reports indicated some transfers from this fund. Thirteen reports showed the details of transactions. Eighteen reports showed an ending balance. Of these eighteen, sixteen showed the balance as cash, or partly cash, six showed some securities, and two did not describe the balance as either cash or securities.

For the second year under review, all twenty-seven reports showed a beginning balance, and twenty-five showed receipts and

disbursements. Six showed transfers from the fund. Twenty-five showed the ending balance. Of these twenty-five, twenty reports showed the balance as made up of cash, and seven mentioned some securities owned; five reports did not describe the ending balance as cash or securities.

Table 49 summarizes the information contained on the audit reports for the township loanable fund.

Table 49.--Number of township school treasurer audit reports which contained information pertaining to the township loanable fund for fiscal years ended June 30, 1963 and 1964.

Account Titles	1963	1964
Beginning Balance	17	22
Receipts	8	9
Disbursements	8	9
Ending Balance	20	26
Other Data:		
Description of Ending Balance: Cash	15	16
Securities	16	17
None	4	9

For fiscal year ended June 30, 1963, seventeen reports showed the beginning balance of this fund. Eight reports showed both receipts and disbursements, and a total of twenty reports showed the ending balance. Of the twenty reports which indicated the ending balance, fifteen reports showed the amount of cash, sixteen reports showed the amount of securities held, and four re-

ports did not describe the ending balance as either cash or securities.

For the second year under review, twenty-two reports showed the beginning balance; nine reports showed receipts and disbursements, and twenty-six showed the ending balance. Of the twenty-six reports which indicated the ending balance, sixteen reports showed the amount of cash, seventeen reports showed the amount of securities owned, and nine reports did not describe the ending balance as either cash or securities.

In addition to those statements which are recommended to appear in the auditor's report by the Local Governmental Accounting Committee of the Illinois Society, many audit reports which were reviewed as part of this study contained separate analyses, details, exhibits, schedules, statements, and summaries, other than those previously mentioned in Chapter IV.

An arbitrary classification of these statements has been made into: (1) those which pertain to asset accounts or transactions which normally give rise to assets; (2) those which pertain to liability accounts or transactions which normally give rise to liabilities; and (3) miscellaneous types of statements, which would explain an asset, liability, or fund balance account.

Table 50 summarizes the titles of these additional statements of the asset-type transaction which were included in the township school treasurer audit reports for the two years under review.

Table 50.--Titles of statements pertaining to asset accounts or asset-type transactions which were included in the township school treasurer audit reports, other than those previously referred to in conjunction with the recommendations of the Illinois Society, for fiscal years ended June 30, 1963 and 1964.

Titles of Statements	1963	1964
Activities and Imprest Fund	0	1
Cash on Deposit	1	0
Changes in Investments	1	0
Detail of U. S. Government Obligations Held as		
School District Investments	1	1
Imprest Fund	0	1
Insurance Coverage	0	1
Insurance Coverage - School Treasurer	1	0
Investments	0	1
Investments - General Fund	0	1
Investment of General Fund in U. S. Treasury		
Bills	1	0
Land, Building, and Equipment - Summary of		
Memorandum Cost Data and Replacement	1	0
Location of Cash and Securities Owned	1	1
Other Revenues:	4	4
Governmental Aid	4	3
Student and Community Services	4	3
Property Taxes	1	0
Schedule of Insurance and Fidelity Bonds	1	1
Schedule of Surety Bonds and Insurance	1	1
Securities Pledged to Secure School District		
Funds	0	1
Statement of Fixed Assets	0	1
Statement of Investments and Investment Income	0	3
Summary and Analysis of Investments Made in		
U. S. Treasury Bills and Bonds	1	0
Summary of Cafeteria Cash Receipts and Dis-		
bursements	0	1
Treasury Surety Bonds	0	1
U. S. Government Securities Owned	1	0
Total	24	26

For fiscal year ended June 30, 1963, a total of twenty-four such statements were presented in the audit reports.

For fiscal year ended June 30, 1964, twenty-six such statements appeared, and, of these, twelve bore titles different from those of the previous year.

Table 51 summarizes the titles of the additional statements of the liability-type transaction which were included in the audit reports for the two years.

Table 51.--Titles of statements pertaining to liability accounts or liability-type transactions which were included in the township school treasurer audit reports, other than those previously referred to in conjunction with the recommendations of the Illinois Society, for fiscal years ended June 30, 1963 and 1964.

Titles of Statements	1963	1964
Analysis of Interfund Loans Made, Repaid, and Outstanding	1	0
Analysis of Warrants Issued, Retired, and Outstanding	1	0
Brief Summary of Obligations Outstanding	0	1
Changes in Bonded Debt	0	1
Changes in Interfund Balances	1	0
Changes in Interfund Loans	1	0
Educational Bonds Payable	1	0
Interfund Loans	1	1
New Bond Issues Sold	1	0
Outstanding Tax Anticipation Warrants	0	1
School Building Bonds Payable	1	0
Summary of Interfund Loans	0	1
Summary of Recorded Obligations Outstanding	1	0
Summary of Tax Anticipation Warrant Indebtedness	0	1
Tax Anticipation Warrants	0	2
Tax Anticipation Warrants Issued	1	0
Tax Anticipation Warrants Payable	5	1
Tax Anticipation Warrants Retired	1	0
Unpaid Obligations Not Appearing in the Budgeted Expenditures on the Cash Basis	0	1
Total	16	10

For fiscal year ended June 30, 1963, a total of sixteen such statements was presented in the audit reports.

For fiscal year ended June 30, 1964, only ten such statements appeared, but, of these, eight bore titles different from those of the previous year.

Table 52 summarizes the titles of the additional statements of the miscellaneous-type transaction which were included in the audit reports for the two years.

For fiscal year ended June 30, 1963, a total of sixteen such statements was presented in the audit reports.

For fiscal year ended June 30, 1964, eighteen such statements appeared in the reports, and, of these, eleven bore titles different from those of the previous year.

Table 52.--Titles of statements pertaining to the miscellaneous-type transactions which were included in the township school treasurer audit reports, other than those previously referred to in conjunction with the recommendations of the Illinois Society, for fiscal years ended June 30, 1963 and 1964.

Titles of Statements	1963	1964
Analysis of Cash Receipts and Disbursements	0	1
Analysis of Transactions in Working Cash Fund	0	1
Assessed Valuation and Rates	0	2
Bank Reconciliations	2	1
Bond Paying Agents: Summary of Deposits Made and Securities Paid	1	0
Budgeted Expenditures	3	2
Comparative Summary of Educational Fund and Building Fund Expenditures and Budgets	1	0
Computation and Analysis of Income and Expense of Township Distributive Fund Allocable to School Districts and Net Distribution thereof	1	1
Deficit Transfer between Funds	0	1
Investment Transactions for the Year	0	2

Table 52.--Continued.

Titles of Statements	1963	1964
Comparative Summary of Receipts and Disbursements for Two Years	0	1
Notes to Statement of Cash Receipts and Disbursements	0	1
Proration of Township Treasurer's Compensation and Office Expense	1	0
Review of Bonds Redeemed	1	0
Summary of Fund Balances	1	1
Summary of Imprest Fund Transactions	1	1
Summary of Investment Transactions	0	1
Summary of Per Capita Cost and Teacher Salaries	1	0
Tax Levy Data	1	0
Transfers and Loans	0	1
Treasurer's Balance Sheet	2	0
Summary of Interest Distribution	0	1
Total	16	18

### CONTENTS OF QUESTIONNAIRE

The "Questionnaire to Be Completed by School District Auditors" (1962-1963) and the "Questionnaire to Be Completed by Auditors of the Township Treasurers of School Districts" (1963-1964) are reprinted in Appendix IV. This latter questionnaire contains three changes: (1) question three has been replaced by a two-part question; (2) question nineteen has been omitted; and (3) question twenty-one has been added. A discussion of the method of filing the questionnaires has been presented in Chapter IV. It is now necessary to review the contents of the questionnaires in those areas which are of concern to this present study.

Of the twenty-one questions which appeared in the question-

naires, many of which contain more than one specific question, a total of thirteen questions have been selected for consideration. These questions were selected on the basis of their applicability to: (1) the scope of the audit investigation and report; (2) the audit standards and procedures employed in the conduct of the audit; and (3) the opinion rendered by the independent auditor.

The thirteen questions which were selected are grouped into this threefold classification. The responses to these questions for the two years under review are presented in the next three tables. The question, as it appeared on the questionnaires is stated. The 1963 and 1964 responses are then shown in the two columns to the right. Explanatory remarks, when presented by the independent auditor, are quoted in their entirety in the accompanying text material, first for fiscal year ended June 30, 1963, and then for fiscal year ended June 30, 1964.

Seven questions directly concerned the scope of the audit investigation and the audit report. These questions and their responses are studied in Table 53.

For fiscal year ended June 30, 1963, twenty-one reports indicated that all funds were included in the audit and three reports indicated that certain funds were not included. These funds were, in each of the three cases, those funds which were audited by other CPA's.

It should again be mentioned, as previously, in Chapter IV, that only twenty-four questionnaires were filed with the Coun-



ty Superintendent of Schools for fiscal year ended June 30, 1963, as opposed to twenty-seven, or all, for the second year.

Table 53.--Auditors' questionnaire responses to the seven questions regarding the scope of the audit investigation and the audit report for fiscal years ended June 30, 1963 and 1964.

Statement of Question	1963		1964	
	Yes	No	Yes	No
Were all funds included in the audit?	21	3		
Did you audit the underlying records of the School District?			22	5
If you audited the underlying records of the School District, were all funds included in the audit? List exceptions:			18	4
Did you prepare the School District Annual Financial Report?	9	15	11	16
In your opinion are the accounts maintained by the district adequate?	24	0	26	1
Was there any delay in depositing money received?	2	22	1	26
Are investments properly segregated by funds of ownership?	19	2	21	6
In your examination of investments, did you determine to your satisfaction that the district received all interest that should have been received?	22	0	27	0
Was there any undue delay in the deposit of interest received?	0	22	0	27
In your opinion, did the Activity Fund reflect the deposit of district money?	5	17		

As stated earlier, the question concerning the inclusion of all funds in the audit was changed to a two-part question in the form of the report for fiscal year ended June 30, 1964. To the

first part of the question, twenty-two reports indicated that the auditor audited the underlying records of the school district. Four of the five reports which answered in the negative to this question explained the response as follows: (1) "the other districts were audited and separately reported on by other CPA's;" (2) "we audited the underlying records of school districts x and x only;" (3) "see our audit report dated November 10, 1964;" and (4) "yes, except district number x." The fifth report failed to explain the "no" response. The second part of the question is this: "If you audited the underlying records of the school district, were all funds included in the audit?" Eighteen of the twenty-two reports answered in the affirmative. The four negative answers were explained by these exceptions: (1) "activity, imprest, and other miscellaneous funds for districts x, x, x, and x were audited and spearately reported upon by other public accountants;" (2) "cafeteria fund;" (3) "imprest fund audited by \_\_\_\_\_, CPA;" and (4) "imprest funds were examined by other independent accountants; we examined their reports."

For fiscal year ended June 30, 1963, nine auditors prepared the School District Annual Financial Report, and fifteen did not.

For the following year, eleven auditors prepared the report, and sixteen did not.

All auditors responded that the accounts maintained by the district were adequate for fiscal year ended June 30, 1963.

For the following year, twenty-six of the twenty-seven reports indicated that the accounts were adequately maintained. One auditor criticized the cash account with this comment: "Cash account should be maintained on a basis so as to facilitate easier comparison."

To the question, "Was there any delay in depositing money received?" only two auditors answered affirmatively for fiscal year ended June 30, 1963. Their explanations for this delay were: (1) "Receipts of the district are minor in amount and are deposited at least weekly or sooner if sufficient funds have been accumulated;" and (2) "None came to our attention. However audit scope does not contemplate a review of deposit dates for the entire year."

For the second year under study, only one audit report indicated an affirmative answer, but this was explained with the exact phrasing as item two above, "None came to our attention. However audit scope does not contemplate a review of deposit dates for the entire year."

To the question, "Are investments properly segregated by funds of ownership?" nineteen auditors answered affirmatively, two in the negative, and three gave no answer, for fiscal year ended June 30, 1963. The two "no" responses were explained: (1) "All invested funds are merged to obtain maximum rate of return;" and (2) "Although funds are pooled for investment purposes, accounting therefor is by fund of ownership."

For the second year under review, the reports indicated that twenty-one investment accounts were properly segregated by funds of ownership. The six negative answers were explained as follows: (1) "The township school treasurer invests funds of the total General Fund applicable to all school districts and distributes to each district their applicable share of all income from said investments after the close of the fiscal year;" (2) "Invests available cash in direct obligations of the U. S.; interest on Construction Fund credited to that account; interest on other funds credited to Educational Fund;" (3) "Certain pooled funds are invested in the name of the township school treasurer only;" (4) "The treasurer invests for all districts in proportion to the total cash available in U. S. Treasury Bills;" (5) "Investments are in the name of the treasurer for the district;" (6) "Interest received is credited to the fund of ownership; however, at the fiscal year end (June 30) the total interest earned on the invested funds of each school district was redistributed to the Educational and Building Funds of the related district based on the 1963 tax levy for the respective funds. This was done by the township school treasurer on instructions from the Board of Education of each school district and is consistent with the procedure of the previous year."

Only one two-part question related to the scope of the audit investigation for the first year: (1) "In your examination of investments, did you determine to your satisfaction that the dis-

district received all interest that should have been received?" and (2) "Was there any undue delay in the deposit of interest received?" For fiscal year ended June 30, 1963, there were twenty-two reports which indicated that each district received all interest due without delay, and two reports failed to indicate an answer.

For the second year under review, all twenty-seven reports indicated that all investment interest was received without delay.

The final question which applies to the scope of the audit investigation and report is: "In your opinion, did the Activity Fund reflect the deposit of district money?" For fiscal year ended June 30, 1963, five auditors answered affirmatively, seventeen in the negative, and two gave no answer. Of the five affirmative answers, only two were explained, and these as follows: (1) "Activity, imprest, and other miscellaneous funds for Districts x, x, x, x, and x were audited and separately reported upon by other public accountants;" and (2) "Receipts for books and milk were deposited in the activity fund at the end of each month; one check was prepared transferring the amount collected to the treasurer's account. As of 1963-1964 school year this practice was discontinued.

This question was omitted for the report due for fiscal year ended June 30, 1964, as has been explained earlier.

Three questions pertained to the audit standards and procedures employed in the conduct of the audit. These questions and answers appear in Table 54.

Table 54.--Auditors' questionnaire responses to the three questions regarding the standards and procedures employed in the conduct of the audit for fiscal years ended June 30, 1963 and 1964.

Statement of Question	1963		1964	
	Yes	No	Yes	No
In your opinion, are the internal control and internal check procedures in use adequate in the circumstances?	22	2	24	3
Are the Accounts generally maintained in accordance with the <u>Illinois Financial Accounting Manual for Local School Districts</u> ?	24	0	27	0
Has the district handled its Imprest Fund in accordance with the <u>Illinois Financial Accounting Manual for Local School Districts</u> ?	22	0	26	1

For fiscal year ended June 30, 1963, there were twenty-two affirmative answers and two "no" answers to the question: "In your opinion, are the internal control and internal check procedures in use adequate in the circumstances?" The two "no" answers were explained as follows: (1) "Cash received by school office should be controlled by uniform receipt forms in numerical sequence supported by more orderly files;" and (2) "Secretary of Board of Education keeps the books, prepares the checks, and is a check signers. The district could take advantage of the data processing system available at the township treasurer's office and have the Superintendent prepare a pre-list of bills and compute the payroll, to be scrutinized by the Board."

For the second year under study, there were twenty-four

affirmative answers and three "no" answers. The negative responses were explained as follows: (1) "Bank accounts were not reconciled during the year under review;" (2) "The need for tightening of internal check on cash receipts at the school level is indicated. Recommendations are being made to improve this condition;" and (3) "Checks are returned to school districts for distribution to payee in lieu of the preferred procedure of being forwarded directly to the payee by the treasurer."

There was a unanimous, affirmative answer to the question, "Are the accounts generally maintained in accordance with the Illinois Financial Accounting Manual for Local School Districts?" for fiscal year ended June 30, 1963.

For the second year, there was once again an affirmative answer indicated on all twenty-seven of the reports.

To the question, "Has the district handled its Imprest Fund in accordance with the Illinois Financial Accounting Manual for Local School Districts?" there were twenty-two affirmative answers, and two auditors failed to respond, for fiscal year ended June 30, 1963.

For fiscal year ended June 30, 1964, there were twenty-six affirmative answers; one auditor failed to respond.

Three questions on the questionnaire related to the opinion rendered by the independent auditor. These questions and the responses which were provided by the auditors are presented in Table 55.

Table 55.--Auditors' questionnaire responses to the three questions regarding the opinion rendered by the independent auditor for fiscal years ended June 30, 1963 and 1964.

Statement of Question	1963		1964	
	Yes	No	Yes	No
Does your report contain an unqualified opinion?	24	0	27	0
Does your report specifically deny an opinion?	0	24	0	27
Did your examination and tests of the accounting records disclose any evidence of fraud or dishonesty?	0	24	0	27

For fiscal year ended June 30, 1963, all audit reports were unanimous in the responses to the three questions. Each report contained an unqualified opinion; no reports denied an opinion; and the examinations and tests of the accounting records disclosed no evidence of fraud or dishonesty.

For the second year, all twenty-seven reports responded unanimously to the three questions, indicating: (1) that an unqualified opinion had been rendered; (2) that an opinion was not denied; and (3) that there was no evidence of fraud or dishonesty.



## CHAPTER VII

### FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

#### INTRODUCTION

This study has analysed the audit reports of the township school treasurers' offices in Cook County, Illinois for fiscal years ended June 30, 1963 and June 30, 1964. The comparative study specifically concerned the form, the scope, and the content of the audit reports for the two years, as filed in the office of the County Superintendent of Schools, Cook County, Illinois. Although the recurring question throughout the study sought to determine whether the audit reports for the second year under study showed a greater degree of uniformity than did the audit reports for the first year, as regards form, scope, and content, three specific questions were asked:

1. Will a comparative study of the audit reports of the financial records of the township school treasurers of Cook County, Illinois, for fiscal years 1962-1963 and 1963-1964 indicate a uniformity or lack of uniformity in form, scope, and content?

2. What specific changes will occur in the form, scope, and content of the audit reports for fiscal year 1963-1964 as the result of the work of the Committee on Standards of Reporting and the Committee on Local Governmental Accounting of the Illinois So-

ciety of Certified Public Accountants, as summarized and circulated by the Society in letters dated December 18, 1963 and May 27, 1964?

3. Will these changes produce greater uniformity in the form, scope, and content of the audit reports for fiscal year 1963-1964 as compared with fiscal year 1962-1963?

### FINDINGS

The first two of these questions have already been answered in the development of this study in Chapters IV, V, and VI. The findings relative to the third question which have been demonstrated throughout the study are summarized below. These findings are presented in terms of their relation to the form, the scope, and the content of the audit reports.

That phase of the study which concerned the form of audit reports was developed in terms of: (1) the unique characteristics of the Class II county school unit; (2) the general characteristics of the audit reports which were reviewed; and (3) the compliance or non-compliance with the suggestions of the Local Governmental Accounting Committee of the Illinois Society of Certified Public Accountants. The summary of the findings of this study relative to the form of audit reports will follow this same pattern of development.

The unique characteristics of Cook County, as a Class II county school unit, create for the auditor certain problems re-

garding the form of the report which are not confronted in the audit of a local school district. Chief among these problems are the following:

1. The local school district boards are required by law to have an annual school district audit, just as is the office of the township school treasurer. The township school trustees and the local school district boards are free to select an independent auditor to perform these audits. As illustrated in Table 5, Chapter IV, the auditor of the township school treasurer's office is not always the same auditor who is selected by the local school district boards to perform the audit of the local school district. For both years under review, the auditors of the township school treasurer's office have performed at least one local school district audit within the township and an increasing number of local school district audits were performed by the auditor of the township school treasurer's office. The increase rose from 66.44 per cent in the first year, to 70.47 per cent in the second year.

2. Since there is no required form for the preparation of the audit report for the township school treasurer's office, the independent auditor is free to select any one of the following three forms of report: (1) a combined form for the township school treasurer and the local school district; (2) a separate audit report for the township school treasurer and for each local school district; and (3) a separate audit report for the township school

treasurer and a combined report for all local school districts within the township. Table 6, Chapter IV, disclosed no appreciable difference in the auditors' choice of form for the second year. However, one additional audit was submitted in a combined form for the township and each school district for the second year, as opposed to a separate report for each school district in the first year.

3. A third problem which results from the unique organization of the Cook County School System is that the auditor of the township school treasurer's office must choose for certain statements or schedules contained in the report one or more of the following forms of data presentation: (1) for all funds for all local districts; (2) for all funds for each local district; (3) for each fund for all local districts; and (4) for each fund for each local district. Tables 15, 17, and 20, Chapter IV, present comparative studies on the choices made by the independent auditors relative to the organization of data on the several statements. A study of each of these tables indicates a tendency on the part of the auditors to express the data for the second year in such a manner as to facilitate comparisons between the individual school districts within the township, although there is by no means any semblance of uniformity of practice.

4. The fourth problem created by the unique organization of the school system is to be noted in the method of filing the questionnaires which are completed by the auditors. As indicated

in Table 24, Chapter IV, the auditors are free to choose: (1) to file the questionnaire with the township school treasurer's audit report with one questionnaire for the township or one for each school district; (2) to file the questionnaire with the local school district district audit report; or (3) to file the questionnaire with the School District Annual Financial Report. A comparative study of the method of filing the questionnaires indicates a tendency away from filing them with the local school district audit and toward filing them either with the township school treasurer's audit report or with the School District Annual Financial Report.

5. The final problem encountered in auditing the township school treasurer's offices in Cook County concerns the township distributive and the township loanable funds. A study of Tables 25 and 26, Chapter IV, will indicate a tendency for the auditor to include a separate schedule for the financial statements relative to these funds, although no uniform practice has been followed. Tables 48 and 49, Chapter VI, indicates that twenty-six audit reports for the second year under review, as opposed to only twenty for the previous year, showed the ending balances of these funds; and, although less than this number indicated beginning balances, receipts, and disbursements for both years, the second year statements were generally more detailed.

A study of the general characteristics of the audit reports which were reviewed indicates no appreciable trend toward

uniformity, although certain audit reports showed a more thorough and adequate report for the second year, and one report, in particular, followed the suggestions of the Local Governmental Accounting Committee in every facet of the model audit report drafts. From the findings presented in Tables 7 to 13, Chapter IV, the following summary statements are proposed:

1. Fifteen different titles of the audit reports were used for both years with the title, audit report, used most frequently.

2. The descriptive data appearing on the cover, frontispiece, or both, of the audit reports for the two years showed a tendency for the cover to include more information on more reports for the second year.

3. The letter form was the unanimous choice of style by the independent auditors for the second year, and one additional report was submitted as a long-form report for the second year, although the short-form was the choice of twenty auditors.

4. One additional report for the second year contained a table of contents or an index, leaving only one report which failed to include either. Placing the table of contents or index in front of the scope and opinion section of the report was still the most frequent choice, eighteen cases, for the second year as well.

5. Special comments were included in one additional report for the second year, and, contrary to the more frequent practice of the previous year, these comments were included within the

scope section in twelve of twenty-one cases.

6. Indicative of the more thorough and adequate reporting for the second year is the increase in the median number of total pages of the audit reports from twenty-six for the first year to forty for the second year.

7. The increased number of analyses, details, exhibits, schedules, statements, and summaries, from a total of 607 for the first year to 705 for the second year and from a mean of 22.45 for the first year to 26.11 for the second year and from a median of fifteen for the first year to twenty for the second, is likewise indicative of a more thorough and adequate audit for the second year under review.

The content and purpose of the model audit report drafts prepared by the Local Governmental Accounting Committee of the Illinois Society of Certified Public Accountants have been described in Chapter III. It was the intent of this committee that these drafts would serve as a guide to the auditor as regards the form, scope, and content of the audit reports for fiscal year ended June 30, 1964 and thereafter. Tables 14 to 23, Chapter IV, list the findings of this study relative to the form of the audit report in terms of the suggestions of this committee. The following summarization of these findings will indicate a minimal compliance with the suggestions:

1. Although two audit reports for the second year contained a statement bearing the recommended title, Statement of As-

sets and Liabilities Arising from Cash Transactions, statements bearing twenty-eight different titles, as opposed to twenty-three for the previous year, were used to present the required information.

2. Similarly, two audit reports for the second year contained a statement bearing the recommended title, Statement of Cash Receipts and Disbursements and Comparison with Budget. Although the words, receipts and disbursements, appeared in a total of thirty-five different titles, a total of twenty-three different titles, as opposed to fourteen for the previous year, was used for the required information.

3. The recommended Statement of Detailed Disbursements appeared in only twenty-one reports for the second year, as opposed to twenty for the previous year, and, of these, sixteen appeared as a separate statement.

4. The Bonded Debt Data statement, as recommended, bore eighteen different titles for the second year, as opposed to fifteen previously, but there was some required information included in all audit reports for the second year, whereas all but one had some information for the previous year.

5. Only sixteen reports, three less than the previous year, had information concerning Bond Maturities in Future Years and only three reports, two more than the previous year, followed the recommended statement of Bond Maturities and Interest Requirements in Future Years.



6. Eighteen reports, two more than the previous year, contained information on Tax Rates, Extensions, and Collections, but only one report used the recommended title for this statement.

7. Only two reports, as opposed to one for the previous year, contained the recommended Statement of Assessed Valuation, as Equalized, and both reports used this title.

That phase of the study which concerned the scope of the audit reports related the analysis of the reports to three sets of criteria: (1) those which stem from the wording of the standard short-form report; (2) those which were developed from the recommended short-form report for local school districts; and (3) those which were proposed as the result of an analysis of statements made by the independent auditors in their audit reports. The summary of the findings of this phase of the study will be stated in terms of the fifteen propositions which were developed from these criteria, as indicated in Tables 27 to 36, Chapter V.

Proposition 1. For both years under review, every audit report stated that an audit investigation preceded the preparation of the report.

Proposition 2. In twenty-five reports for the second year, as opposed to twenty-four previously, mention was made that the customary audit standards were observed.

Proposition 3. In twenty-three cases, as opposed to twenty-two for the previous year, general audit procedures were mentioned, but in only three cases for both years were specific audit

procedures described.

Proposition 4. Twenty-six reports, as opposed to twenty-two for the previous year, mentioned the tests of accounting records.

Proposition 5. For both years, every audit report expressed an opinion on the financial statements.

Proposition 6. Similarly, for both years, every audit report contained a statement that the financial position and operating results were fairly presented.

Proposition 7. For the second year only seven reports, as opposed to eight previously, mentioned that the financial statements were based on accepted principles of accounting.

Proposition 8. Eight reports for the second year, as opposed to nine for the first year, stated that accounting principles were applied on a basis consistent with that of the previous year.

Proposition 9. Seventeen different wordings were chosen by the auditors for the financial statements on which an opinion was rendered, as opposed to fifteen such wordings for the previous year.

Proposition 10. For both years under review, every audit report fully described the township school district which was audited, but the local school districts were described in only nineteen reports for the second year, as opposed to only sixteen reports for the first year.

Proposition 11. Comments and statistical data were presented in twenty-two audit reports for the second year, as opposed to only eleven reports for the first year.

Proposition 12. For the second year under review, only thirteen reports mentioned that the township loanable fund and the township distributive fund were included within the scope of the audit, as opposed to twelve reports with such a statement for the previous year.

Proposition 13. In only six cases for the second year, as opposed to eight for the previous year, was mention made that The School Code of Illinois was used as a criterion by the auditor in the formulation of his opinion.

Proposition 14. For both years, the Illinois Financial Accounting Manual for Local School Systems was mentioned in seven reports as having served as a criterion for the auditor's opinion.

Proposition 15. In eighteen reports for the second year, as opposed to only sixteen previously, the auditors made explicit mention that the cash or accrual basis of accounting was used. However, from the titles of the statements contained in the audit reports, it was readily determined that the cash basis of accounting was employed in all districts for the second year under review, as opposed to only twenty-five cases in the previous year.

Included in the discussion of the scope of audit reports, Chapter V, was a study of the limitations, exceptions, explanations, and recommendations as stated by the auditors for the two

years under review. The chief finding of this phase of the study is that for both years under review there were twenty audit reports which failed to define the limitations of the scope of the individual audit. The implications of this failure on the part of so many auditors to express the limitations of the scope of their audit present inferences which might well serve as the basis of questioning the over-all compliance with the school audit law of the State of Illinois which calls for an audit of all school accounts. Moreover:

1. There were five audit reports which contained exceptions to accepted accounting principles for the first of the two years, and a total of seven such reports with exceptions stated for the second year.

2. For the first of the two years, there were only two audit reports which contained explanations of certain aspects of the audit investigation, but there were six such reports for the second year.

3. Only two audit reports for each of the two years contained specific recommendations for changes either in internal controls, accounting practices, or the reporting function. For the first of the two years, seven recommendations applied to internal controls; two, to accounting practices; and two, to the reporting function. For the second year, seven applied to internal controls; two, to the accounting process; and one, to the reporting function.

That phase of the study which concerned the content of audit reports presented a threefold approach to the analysis of the content of the audit reports: (1) an analysis of the financial information which should appear on those statements recommended by the Local Governmental Accounting Committee of the Illinois Society; (2) a study of the other analyses, details, exhibits, schedules, statements, and summaries which the independent auditors included in their reports; and (3) a review of the responses made by the independent auditors in the two forms of questionnaire completed by the school district auditors. The summary of the findings of this study will be stated in terms of these three approaches.

In analysing the content of the audit reports for the second year in terms of the suggested content of the individual statements as proposed by the Local Governmental Accounting Committee of the Illinois Society, there was found to be only two reports which consistently followed the model audit report drafts. However, as illustrated in Tables 38 to 47, Chapter VI, there was an over-all, although slight, trend toward more reports including more of the suggested data. Specifically:

1. The suggested content of the Statement of Assets and Liabilities Arising from Cash Transactions was adhered to strictly in only three cases, although one additional report for the second year contained cash information, for a total of twenty-six; four additional reports included investment information, for a total of twenty-five; and two additional reports contained individual fund

balance information, for a total of all twenty-seven reports.

2. The recommended Statement of Receipts and Disbursements was followed quite extensively. All twenty-seven reports, four more than the previous year, showed beginning balances, receipts, disbursements, and ending balances. Sixteen reports, four more than the previous year, distinguished between revenue and non-revenue receipts. Fifteen reports, the same as for the previous year, distinguished between operating and non-operating disbursements. Moreover, a total of twenty-one reports, five more than the previous year, contained a detailed statement of disbursements; and seven reports, one more than the previous year, contained comparisons of budget with actual figures.

3. One additional report, for a total of only seven reports, presented a statement of the audit of the Student Activity Funds, with only four reports, one more than the previous year, presenting the details of receipts and disbursements.

4. The information recommended on the Bonded Debt Data Schedule was included on more reports for the second year. All twenty-seven reports, as opposed to only twenty-four for the previous year, contained some information. Sixteen of these, as opposed to only thirteen previously, contained all the suggested information.

5. Nineteen reports, one more than previously, showed the amount of bonds maturing in subsequent years; three reports, as opposed to none previously, showed both Bond Interest and Maturity

Requirements in Future Years; and one report, as previously, showed only interest requirements for future years.

6. Ten reports, as opposed to only eight for the previous year, presented information on Tax Rates, Extensions, and Collections, although not all ten reports contained all of the suggested detailed data.

7. However, only two reports for both years contained the details suggested to appear in the Statement of Legal Debt Margin.

8. Only two reports, one more than previously, contained the recommended information on the Statement of Assessed Valuation as Equalized.

Tables 50, 51, and 52 show the organization of additional statements contained in the audit reports for the two years, arbitrarily classified as: (1) those which pertain to asset accounts or transactions which normally give rise to assets; (2) those which pertain to liabilities or those which normally give rise to liabilities; and (3) miscellaneous types of statements. These findings are proposed:

1. Of the twenty-six statements which were of the asset-type transaction, as opposed to twenty-four for the previous year, twelve bore titles different from those of the previous year.

2. Of the ten statements which were of the liability-type transaction, as opposed to sixteen for the previous year, eight bore titles different from those of the previous year.

3. Of the eighteen statements which were of the miscella-

neous type, as opposed to sixteen for the previous year, eleven bore titles different from those of the previous year.

Thirteen questions were selected from the questionnaires completed by school district auditors because of their direct bearing on this study. These questions were selected on the basis of their applicability to: (1) the scope of the audit investigation and report; (2) the audit standards and procedures employed in the conduct of the audit; and (3) the opinion rendered by the independent auditor. Tables 53, 54, and 55, Chapter VI, analyse these questions and responses.

Seven questions directly concerned the scope of the audit investigation and report. A summary of these questions and their responses follows:

1. Only twenty-one reports for the first year and twenty-two for the second year indicated that all funds were included in the audit investigation.

2. All auditors responded that the accounts maintained by the district were adequate for the first year, and all but one so responded for the second year.

3. For the first year, nine auditors prepared the School District Annual Financial Report, as opposed to eleven for the second year.

4. Two reports for the first year, and one report for the second year indicated a delay in depositing cash receipts.

5. Nineteen reports for the first year, as opposed to



twenty-one for the second year, attested to the proper segregation of funds.

6. Twenty-two reports, as opposed to all twenty-seven for the second year, indicated that each district received all interest due without delay.

7. The final question, omitted in the questionnaire for fiscal year ended June 30, 1964, indicated that five reports for the first year stated that the Activity Fund did not reflect the deposit of district money.

Three questions were related to audit standards and procedures employed in the conduct of the audit. A summary of these questions and responses follows.

8. Twenty-two reports, as opposed to twenty-four for the second year, stated that internal controls were adequate.

9. For both years there was a unanimous, affirmative answer to the question, "Are the accounts generally maintained in accordance with the Illinois Financial Accounting Manual for Local School Systems?"

10. Twenty-two reports, as opposed to twenty-six for the second year, approved of the method of handling the Imprest Fund.

Three questions pertained to the opinion rendered by the independent auditor. In all cases, for both years, the same answers were given:

11. Each report contained an unqualified opinion.

12. No reports denied an opinion.

13. There was no evidence of fraud or dishonesty.

### CONCLUSIONS

The conclusions of this study, based on its findings, follow the pattern of development throughout, in terms of the form, scope, and content of the audit reports which were reviewed. However, certain conclusions which are equally applicable to all phases of the study are stated first. The conclusions are:

1. The unique characteristics of the Cook County School System, as the only Class II county school unit in the State of Illinois, call for special provisions of the school audit law to guide and direct the auditor in his investigative and reporting function.

2. Under the leadership of the township school trustees, positive effort should be initiated to review the present practice of the employment of auditors by the local school district boards and by the township school trustees to effect the mutual selection of an independent auditor responsible for the township school treasurer's audit and the audit of all records and funds of each local school district within that township.

3. The almost universal disregard for fiscal year ended June 30, 1964 of the model audit report drafts, intended as a guide for auditors, may point up the need for certain revisions of these drafts or for further time to allow auditors the opportunity of reviewing the suggestions outlined therein.

4. The Office of the Superintendent of Public Instruction should continue its work in upgrading the auditing function by sponsoring further research, jointly undertaken by professional organizations, school officials, and independent practitioners, in developing a standard and uniform reporting format which would be of maximum usefulness to all interested parties, without tending to destroy the auditor's initiative and resourcefulness.

5. The uniform and standard format which is developed for the annual school district audit should be extended so as to include special provisions applicable to the unique characteristics of the Class II county school unit, relative to form, scope, and content of audit reports, so as to ensure the compliance with State Law as regards the audit of all school district funds.

6. The instructions issued by the Office of the Superintendent of Public Instruction relative to the questionnaires which the auditor submits must include more thorough and more adequate instructions relative to the audit of school districts of the Class II county school unit organization. Consideration should be given to having this required questionnaire become an integral part of the complete audit report.

7. The uniform and standard format of a reporting form should include the requirement of compliance with those general characteristics of form of presentation considered necessary to facilitate comparisons of such reports. The uniform and standard format should encompass the following characteristics: the title,

the table of contents, the scope and opinion sections, the special comments section, the titles of analyses, details, exhibits, schedules, statements, and summaries.

8. The uniform and standard format of the reporting form should contain a carefully worded scope section wherein the auditor would explicitly state the scope of his audit investigation and report. The wording would be the result of the recommendations contained in: (1) the wording of the standard short form report; (2) the model audit report drafts of the Local Governmental Accounting Committee of the Illinois Society; and (3) the suggestions proposed by the joint efforts of professional associations, school officials, and independent practitioners. The fifteen propositions developed as part of this study should be considered as essential to such a statement of scope.

9. The uniform and standard format of the reporting form should be so extensive as to include not only the titles of statements which should be contained in the audit report, but also the details to be included in each of the statements. The model audit report drafts, developed by the Local Governmental Accounting Committee, should be carefully reviewed as the basic source of the content of each of the recommended statements.

#### RECOMMENDATIONS FOR FURTHER STUDY

In terms of the conclusions proposed as a result of this study, the following recommendations for further research are ad-

vanced:

1. Basic to the agreement of all interested parties to the essential information to be included in the audit report of a local school district is the realization of the varied functions served by the audit investigation and report. Research studies should be initiated to determine, at each level, the use which the local school boards, the county boards of trustees, and the Office of Superintendent of Public Instruction make of such reports. Such research might well include a consideration of what effect the improved audit report would have on the future usefulness of the audit report as a public information tool, as the basis for comparative studies, and as the one, final, and perhaps all-inclusive financial document of the school unit.

2. With purpose determined through cooperative research, further studies should be undertaken under the leadership of the Superintendent of Public Instruction, with the participation of professional associations, school officials, and independent practitioners, to develop a uniform and standard reporting format which would safeguard the independent auditor's initiative and resourcefulness in expressing his findings to the local school district board and guarantee the requirements of maximum utility at all levels of school unit organization.

3. Continuous research should be encouraged by the joint and independent efforts of state agencies, professional associations, and others interested in the upgrading of the auditing

function. This research should continue to be reviewed, appraised, and summarized in professional journals so that those who are most concerned will have immediate knowledge of the most recent trends and developments.

4. Specifically, research studies should be initiated immediately, so as to determine the most suitable measures to:

a. Amend the provisions of the school audit law so that it will become equally applicable to the Class II county school unit.

b. Review employment practices in the selection of an independent auditor responsible for the audit of both the township school treasurer's office and the local school districts.

c. Develop a uniform and standard reporting format which would allow for specific, extensive, and detailed requirements as to the form, scope, and content of audit reports while still providing for the independent auditor's freedom to address and express a meaningful audit report to the local school district board.

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## APPENDIX I

### CORRESPONDENCE

July 21, 1964

The Honorable Ray Page  
Superintendent of Public Instruction  
State of Illinois  
Springfield, Illinois

Dear Mr. Page:

My planned dissertation topic in the Education Department of Loyola University, Chicago, is in the area of school accounting and auditing.

The following publications of your office will be helpful in my study:

1. The Illinois Financial Accounting Manual for Local School Systems, March, 1961. Any additional information or a copy of the Revised Manual would likewise be helpful.

2. The School District Annual Financial Report for fiscal year 1963-1964, Cash Basis and Accrual Basis.

3. "Questionnaire to Be Completed by School District Auditors, 1963-1964."

If your office has available the copies of these two studies of the Illinois Society of Certified Public Accountants, I would appreciate your sending them to me:

1. The December 18, 1963 statement resulting from the Society's review of 222 audit reports for fiscal year ended June 30, 1962.

2. The May 27, 1964 letter and accompanying audit guidelines and model audit report drafts of the Local Governmental Accounting Committee of the Illinois Society.

Since there is such a growing interest in the entire area of school accounting and auditing, your office may be planning

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further studies. A statement of any information of these proposed studies would prove quite helpful.

Please send the above to: Mr. Patrick F. Ahern  
(address)

Sincerely yours,

Patrick F. Ahern /s/

State of Illinois  
Office of the Superintendent of Public Instruction  
Springfield  
August 4, 1964

Mr. Patrick F. Ahern:  
(address)

Dear Mr. Ahern

Mr. Page asked me to send you the items you requested in your letter of July 21, 1964. I want to assure you that we want to assist you in your project.

I am mailing to you the following:

1. The Illinois Financial Accounting Manual for Local School Systems, March, 1961.

2. A copy of a proposed revision of the above manual.

3. School District Annual Financial Report forms for the 1962-1963 and 1963-1964 school years, both Cash and Accrual Basis.

In addition I have written to the Illinois Society of Certified Public Accountants and asked them to mail direct to you copies of the two studies they have prepared regarding auditing of Illinois public schools.

The proposed manual does not yet have in it the sections on budgets and on the accrual basis. These are now being written. However, the manual does include a complete section on cash basis accounting. I shall be glad to have your personal thoughts regarding the proposed revision as we are anxious to obtain suggestions and criticisms before the final copies are printed.

Please let me know if I can be of further assistance to you.

Sincerely,

Allen F. Dye /s/  
Assistant Director  
Finance and Statistics

The Illinois Society of Certified Public Accountants  
208 South La Salle Street  
Chicago, Illinois 60604  
August 10, 1964

Mr. Patrick F. Ahern  
(address)

Dear Mr. Ahern:

We have received a letter from Allen F. Dye, Assistant Director, Finance and Statistics, for the Superintendent of Public Instruction, telling us of your request for certain material we have prepared. In conversation with Professor Meier at Loyola, I learn that you are writing your doctoral dissertation in education and that these documents would be used as reference material in that connection only.

We are glad to enclose a copy of our letter of December 18, 1963 to Superintendent Ray Page, and a copy of our audit guidelines and model reports for school districts. I must caution you that the latter are wholly tentative first drafts and that we have limited distribution of them to our own members, with the request that our members forward to us any suggestions they have for improvement. We will then undertake the preparation of a revised model report and guidelines, at which time (probably next Spring) some distribution may be made to school district officials.

As an example of the need for more uniform school district accounting, and of the responsibility assumed by our Society, to develop material useful to both CPA's and school officials, these documents may prove helpful to you. I assume that any quotation which you might make in your dissertation would be properly annotated to indicate the tentative draft status of these reports at this time.

Yours very truly,

Jeannette M. Cochrane /s/  
Executive Director

August 12, 1964

Mr. Allen F. Dye  
Assistant Director, Finance and Statistics  
Office of the Superintendent of Public Instruction  
State of Illinois  
Springfield, Illinois

Dear Mr. Dye:

I wish to thank you for your kindness in forwarding to me: the Illinois Financial Accounting Manual for Local School Systems, a copy of the proposed revision as well as the School District Annual Financial Report Forms. Your further consideration in writing to the Illinois Society of Certified Public Accountants in my behalf is likewise appreciated.

My research in the area of school audit analysis is progressing quite well. At the moment I am particularly interested in the use to which your office would put the audit reports of the Certified Public Accountants both for School Districts in the Class I organization and for the township school districts in the Class II organization.

I have already written a section on the benefits accruing to the local school district, to its officials, and to the public at large as the result of the audit by the independent auditor. I would like to include a section in the dissertation on any follow-up evaluation, interpretation, or use of such audit reports at the State level.

Perhaps the state office has a written policy on such procedures. This policy, or a brief statement thereof, would be most helpful. If there is no written policy, may I ask that you forward my request to the person or persons responsible for such studies.

I am deeply appreciative of the assistance you have thus far provided, and I strongly hope that this will be my last request directed to you.

Sincerely,

Patrick F. Ahern /s/  
(address)



State of Illinois  
Office of the Superintendent of Public Instruction  
Springfield  
August 25, 1964

Mr. Patrick F. Ahern  
(address)

Dear Mr. Ahern:

I am pleased that you received the accounting manuals that we sent you and also the reports from the Illinois Society of Certified Public Accountants. We are most anxious to be of help to you with your project.

Since 1961-1962 was the first year that all school districts were required to have an independent audit made of their financial records, the quality of the audit reports for that year was quite varied. This concerned us and prompted the evaluation of the audit reports by the Illinois Society of Certified Public Accountants. At that time the Society recommended that we accept all audit reports that appeared to be in keeping with the guide-lines for audits that had been distributed. With our cooperation, the Society prepared a model audit report and this report is now being studied and tested by Certified Public Accountants throughout the State. When this model is finalized, we plan to use it as somewhat of a guide in determining the adequacy of the audit reports for most districts in the State. Of course, some consideration must be given to the size of the school district as it must be expected that a large school district would have a more detailed audit report than a small one.

As audit reports are filed with our office, we evaluate them and follow through on those points in the audit report that we feel should be given special emphasis by our office. We do feel that the audit report should be used by the school board in analysing its financial condition and this is really the primary purpose of the audit report rather than being a report to the Office of the Superintendent of Public Instruction.

It is our plan to expand our staff so that we may be of more assistance to schools with their financial problems, and the audit reports will be the basis for our studies and recommendations.

We feel that during the 1961-1962 school year most auditors had a very difficult time in trying to audit school district accounts. In many cases, they had to actually rebuild the books to comply with the accounting manual.

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The audit reports for 1962-1963 were, in my opinion, much better organized and meaningful. I am anticipating that an additional improvement will be apparent in the 1963-1964 audits.

I am not too certain that this has given you the information that you wish. If you have specific questions regarding the handling of these audit reports, please let me know.

Sincerely,

Allen F. Dye /s/  
Assistant Director  
Finance and Statistics

October 7, 1964

Letter addressed to:  
Superintendents of Instruction  
States of Kansas, Minnesota,  
Nebraska, and South Carolina

Dear Sirs:

My planned dissertation topic at Loyola University, Chicago, will be concerned with school district auditing. One chapter of this dissertation will be designed to indicate the recent trends in the state-wide adoptions of audit programs.

I am seeking information concerning your State and asking that your office assist me in the gathering of data for your State.

On the attached sheet I have indicated the type of information which is of concern to me. Would you kindly refer this brief questionnaire to the officer best suited to respond.

A stamped, self-addressed envelope is attached for your response.

I wish to express my sincere appreciation for your cooperation in this effort.

Sincerely yours,

Patrick F. Ahern /s/  
(address)

## Questionnaire Concerning State-wide Audit Program

1. Name of State \_\_\_\_\_

2. Does State Law require individual school district audits in this State? Yes or No \_\_\_\_\_

If yes, when has this law become effective? Fiscal year  
beginning: (month) \_\_\_\_\_ (year) \_\_\_\_\_

If no: a. What per cent of school districts in this State submit audit reports to the State Department of Education? Estimate of per cent \_\_\_\_\_ %

b. Do such reports come principally from large, small, average-sized, or varied-sized school districts? The reports come from \_\_\_\_\_ school districts.

3. The following questions apply only if the answer to question number "2" was YES.

a. Are all or only some school districts subject to the audit law?

Please indicate all or some \_\_\_\_\_

b. If only some are subject, please characterize these districts as:

1. large, small, average-sized, or varied-sized \_\_\_\_\_

2. city, town, or rural \_\_\_\_\_

c. Please indicate how frequently these audits are required by checking one of the following:

\_\_\_\_\_ Annually  
\_\_\_\_\_ Biennially  
\_\_\_\_\_ 2 to 4 years  
\_\_\_\_\_ Continuously  
\_\_\_\_\_ Other, please specify: \_\_\_\_\_

d. Please indicate the auditors who are designated to perform this function by State Law:

1. A state or governmental agency or official:

\_\_\_\_\_ title of agency or official

2. A non-governmental accountant or auditor:

\_\_\_\_\_ Please indicate requirement, such as CPA, etc.

APPENDIX II

LETTER, CHAIRMAN, COMMITTEE ON STANDARDS OF REPORTING OF THE ILLINOIS SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS,  
DECEMBER 18, 1963

The Illinois Society of Certified Public Accountants  
208 South La Salle Street  
Chicago, Illinois 60604  
December 18, 1963

The Honorable Ray Page  
Superintendent of Public Instruction  
State of Illinois  
Springfield, Illinois

Dear Mr. Page:

In response to your request, the Illinois Society of Certified Public Accountants has undertaken a review of audit reports on school districts in the State of Illinois for the year ended June 30, 1962. These reports had been filed with your office pursuant to the provisions of the Illinois School Code and the regulations thereunder.

Such review was conducted under the auspices of the Society's Committee on Standards of Reporting and was directed principally to the ascertainment of compliance with the standards of reporting enunciated by the American Institute of Certified Public Accountants and with the regulations pertaining to the issuance of such reports under the provisions of state law. Our review was made on a test basis. For this purpose, we selected 222 reports out of a list of reports received from your office containing the titles of approximately 1,500 reports filed for the year ended June 30, 1962. Our selections were made with the view of obtaining a wide geographic representation in the test field and of including at least one report of each accounting firm or practitioner involved in the audit of school districts in Illinois during the year under review.

After selection of the reports to be examined, the committee enlisted the services of twenty-seven members of the Society from various sections of the State to participate in a two-day intensive review session conducted at quarters engaged by the Society at the LaSalle Hotel in Chicago on September 9, and 10, 1963.

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Messrs. John L. Kirby and Allen Dye of your office were present throughout the review session. The Society members invited to participate in the review were certified public accountants experienced in the audits of governmental subdivisions, particularly school districts, and were seasoned in supervisory and review functions within their own firms.

In order to provide for some uniform pattern in the scope and arrangement of the evaluations to be presented by the reviewers, a check-list was developed for the use of the reviewers in scoring their evaluations. A copy of such check-list is appended hereto and is marked Exhibit "A". In the main, the check-list was so designed as to require a "yes" answer for compliance with standards and regulations, and a "no" answer for noncompliance.

The over-all objective of this review project was declared to be essentially educational in character. The over-all results of the review, we understand, are not only to be studied by your office, but are also to be disseminated among CPA's engaged in the audits of school districts as well as to the members of the Society at large. Furthermore, we understand that they may afford a basis for possible revisions in current regulations and the issuance of informative releases, all directed to the end of improving reporting practices in connection with the financial examinations of school districts in Illinois. Bearing in mind these broad objectives, the review check-list was devised not only to reveal violations of generally accepted reporting standards and nonconformance with requirements of Illinois law and regulations, but also to develop certain general information which may be helpful in drafting instructional material to be issued by your office to CPA's engaged in school district auditing.

For your information, and in order that any lay reader of this report may have a clear understanding of the criteria against which the reviewers measured the reports for compliance with the profession's reporting standards, there are presented below the four standards of reporting contained among the Generally Accepted Auditing Standards adopted by the membership of the American Institute of Certified Public Accountants:

1. The report shall state whether the financial statements are presented in accordance with generally accepted principles of accounting.

2. The report shall state whether such principles have been consistently observed in the current period in relation to the preceding period.

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3. Informative disclosures in the financial statements are to be regarded as reasonably adequate unless otherwise stated in the report.

4. The report shall either contain an expression of opinion regarding the financial statements taken as a whole, or an assertion to the effect that an opinion cannot be expressed. When an over-all opinion cannot be expressed, the reasons therefor should be stated. In all cases where the auditor's name is associated with financial statements, the report should contain a clear-cut indication of the character of the auditor's examination, if any, and the degree of responsibility he is taking.

Many school districts maintain their financial records and issue their statements on the cash basis of accounting. This basis of accounting and statement preparation requires appropriate references in the auditor's report as cash basis reporting normally will not yield financial statements presented in accordance with generally accepted principles of accounting.

In treating with the applicability of reporting standards in special circumstances the American Institute of CPA's had this to say regarding reports on the cash basis in a monograph published in 1960 under the title "Special Reports":

Cash basis statements ordinarily do not purport to present either the financial position of an enterprise at a given date or the results of its operation for a given period of time. A statement of assets and liabilities on a cash basis (reflecting, as it frequently does, only assets and liabilities resulting directly from cash transactions and sometimes not even that) is not, except by coincidence, an adequate statement of financial position. A statement of revenues collected and expenses paid is not, in most instances, the equivalent of a statement of income or of operating results and should not be construed as such.

In reporting on these statements special care should be taken to avoid misleading inferences. The wording used to describe cash basis statements should indicate clearly what the statements do represent and should avoid implications that the statements purport to present financial position, operating results, or anything beyond that which they should be expected to cover.

. . . Cash basis statements merely summarize cash transactions. It is the fairness with which they present the cash

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transactions, rather than the inclusion of all pertinent information based on generally accepted accounting principles, which has significance. Reference to generally accepted accounting principles, in an opinion relating to such statements is inappropriate, except, of course, where the amounts omitted are not material, in which case the statements may be said to present fairly the financial position and results of operations.

Because of the number of reports reviewed by us which were on the cash basis of accounting, it would be well for school district accounting personnel, CPA's engaged in school district audits, and those charged with the responsibility of reviewing school district audit reports to be aware of the special reporting problems entailed in the expression of opinions on cash basis statements. To determine their reporting responsibilities under such circumstances, auditors should make reference to Chapter 13 of the American Institute's "Statements on Auditing Procedure No. 33" published December 10, 1963.

The reviews here conducted were, of course, limited to the disclosures contained in the reports examined. Failures of compliance with reporting standards were determined solely from the text of the reports examined. Formal compliance with reporting standards in any case did not necessarily assure compliance with general auditing standards nor with standards of field work. This subject matter was beyond the scope of our inquiry.

At the outset of the review session each reviewer was presented with a group of reports, varying from seven to nine in number, upon which he was to render his analysis and evaluation. The group of reports assigned to each reviewer was carefully assembled in advance of the session to assure, on the basis of the information available to us, that there would be no conflict of interest in any case and that reviewers would not be assigned reports issued by auditors practicing within that community from which the reviewer carried on his practice, except in certain cases involving the Chicago metropolitan area.

Following the completion of the general review session an ad hoc committee consisting of three supervising reviewers was appointed under the chairmanship of the chairman of the Committee on Standards of Reporting to assimilate and summarize the 222 reviews conducted at the general review session and to present this report on the reviewers' findings. The summary findings of the Society's review are as follows:

1. A substantial number of the reports reviewed in the



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test reveal a failure to comply with some of the reporting standards although relatively few reveal noncompliance with all of the reporting standards.

2. Aside from the matter of generally accepted standards of reporting, a number of reports reviewed appeared to lack information required to be presented under the rules and regulations of your office.

3. A number of reports failed to present other information which is deemed important to the officials responsible for the administration of the financial affairs of school districts.

4. The scope and style of the reports varied to such a degree as to pose a considerable review problem for any authority who may be charged with the responsibility of appraising the quality of reports against any set of standards recognized by your office as a proper instrument of evaluation.

5. In a few cases we observed that audit reports were issued by persons not qualified to render opinions on financial statements under the laws of this State.

In view of our findings and with the object of improving the quality of audit reports of school districts required to be filed with your office, we respectfully submit the following recommendations:

1. That the findings of this report be disseminated among public accountants authorized to engage in the audits of school districts in the State of Illinois and among the members at large of the Illinois Society of CPA's.

2. That the audit instructions for school districts in Illinois issued out of the office of the Superintendent of Public Instruction be revised to include information, guidelines, and requirements designed to promote compliance with reporting standards and uniformity in the presentation of data deemed essential for the purposes of school district officials and the Superintendent of Public Instruction.

3. That a model report from be developed as a guide available to school district auditors in achieving the reporting objectives sought by the Superintendent of Public Instruction. (Such a suggested model report is presently being drafted by the Illinois Society Committee on Local Governmental Accounting.)

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4. That there be added to the staff of the Superintendent of Public Instruction one, or more, certified public accountants knowledgeable and experienced in the matter of school district auditing who would be responsible for administering a program of continuous review of school district audit reports to determine compliance with the law, professional standards, and the rules of your office pertaining thereto.

In conducting a critical review project of the type here assigned to us, particularly where there has been no monitoring of performance in the past and where the absence of clearly defined formal requirements of the public authority has resulted in a great variety of reporting practices, it is perhaps natural that the report of findings emphasize the incidence of shortcomings rather than highlight cases of excellent performance. The Society's Committee on Standards of Reporting is primarily interested in eliminating substandard reporting and accordingly addressed itself to those aspects of the review project which would serve to achieve that objective. Nevertheless, it should be noted that in the course of our review we observed a good number of reports of high quality among those selected for test.

The nature of our findings and the incidence of positive and negative evaluations are indicated on the attached form of review check-list (Exhibit "A") which contains a summary of the reviewers' scoring on each question posed in the check-list. Questions which received preponderantly negative responses indicate areas to which special attention should be paid in any educational program to be undertaken or sponsored for the purpose of upgrading reporting practices.

Some of the reporting deficiencies frequently noted by the reviewers included the following:

1. The report contained no statement of changes in bonded debt during the year, only ending balances.
2. No asset, liability or fund balance data were presented where the district records and the reporting were on a cash basis.
3. No budget information was included in the report.
4. Statements were referred to as being "in conformity with generally accepted accounting principles" notwithstanding that the statements were on the cash basis of accounting.
5. No reference was made to the existence of activities

funds nor to the examination thereof.

6. Opinions referred to "accompanying statements" without further identifying such statements.

7. Standard terminology was not used in setting out the scope of the examination and the auditor's opinion.

8. No direct reference was made with respect to compliance with generally accepted auditing standards.

9. The use of general qualifications in the presentation of the opinion such as "subject to," "with the foregoing explanation," etc., serve to cast doubt on the exact nature of the opinion.

10. Disbursements were not classified by object or purpose codes within the major code groups.

11. Certain schedules were included in the report without any indication with respect to the responsibility which the auditor assumed therefor.

12. Statements were represented as being on the basis of "recorded cash transactions," a reference which serves to limit the effectiveness, if it does not put in question the validity, of the auditor's opinion.

Examples of reviewers' comments relating to these types of reporting deficiencies are contained in the attached Exhibit "B". These comments relate to specific cases and are presented as part of this report for the educational value which we believe them to offer.

The quality of the accounting carried on by each school district, its financial capabilities, and the interest displayed by its officials are bound to have some effect upon the financial reporting for the district as well as the character of the auditor's examination into the financial affairs of the district. Nevertheless, we believe that an educational and review program sponsored by your office, consistent with the recommendations made in an earlier part of this report, would serve to upgrade the general quality of audit reporting for school districts in Illinois. Such a development should also, in turn, exact a salutary influence upon the accounting practices of the districts.

We appreciate the opportunity to participate in this public service project and trust that our findings will offer some measure

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of assistance to you and your staff in administering the school district audit program.

Respectfully submitted,

William A. Froehlich  
Robert H. Kuhn  
Irving Richardson  
Harry I. Grossman, Chairman,  
Committee on Standards of  
Reporting

ILLINOIS SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS  
COMMITTEE ON STANDARDS OF REPORTING

CHECKLIST FOR REVIEWERS OF AUDIT REPORTS  
ON ILLINOIS SCHOOL DISTRICTS

School District \_\_\_\_\_ Dist. No. \_\_\_\_\_

Auditor \_\_\_\_\_ County \_\_\_\_\_

<u>Items</u>	<u>Yes</u>	<u>No*</u>	<u>N.A.**</u>	<u>No Answer</u>
ACCOUNTANTS' REPORT				
1. Is the district being reported upon adequately identified?	196	24	1	1
2. Does the auditor state that he has examined the financial statements (appropriately identified) rather than "books and records," "cash transactions," or similar vague references?	96	124	-	2
3. Does the Accountants' Report indicate that all funds have been included in the examination?	144	76	-	2
4. Is the period covered by the examination adequately identified?	212	7	-	3
5. Does the auditor represent that his examination was made in accordance with generally accepted auditing standards?	183	38	-	1
6. Has the auditor stated that he has performed all audit procedures considered necessary in the circumstances without exception? (If "no" give resume of nature of exceptions under "comments" or on attached sheets).	174	46	1	1
7. Are exceptions, if any, to generally accepted auditing standards or procedures clearly expressed in a manner which should be understandable to the reader?	39	31	150	2

<u>Items</u>	<u>Yes</u>	<u>No*</u>	<u>N.A.**</u>	<u>No Answer</u>
ACCOUNTANTS' REPORT (CONT'D)				
8. Is the Accountants' Report substantially in the standard short form?	134	86	1	1
9. Did the auditor's report or a supplementary letter refer to conformance with the requirements of the "Illinois Financial Accounting Manual for Local School Systems?"	160	61	-	1
10. Did the auditor's report or a supplementary letter make comments on internal control and accounting procedures and his recommendations relating thereto?	142	79	-	1
11. Does the auditor express an unqualified opinion on the financial statements?	143	77	1	1
12. If an unqualified opinion has not been expressed by the accountant, has he clearly indicated the reasons for a denial of opinion, or his exceptions to an unqualified opinion?	37	41	137	7
13. Has the accountant made a representation as to conformance with generally accepted accounting principles?	127	93	1	1
14. Has the accountant made reference to consistency of application of accounting principles or clearly expressed his exceptions thereto?	48	172	1	1
15. If the district is on the cash basis, has the accountant represented that the statements present a summary of the cash transactions without such qualifying words or phrases as "recorded cash transactions," etc.?	158	45	16	3

<u>Items</u>	<u>Yes</u>	<u>No*</u>	<u>N.A.**</u>	<u>No Answer</u>
ACCOUNTANTS' REPORT (CONT'D)				
16. In the opinion paragraph of the Accountants' Report, has the accountant clearly identified those financial statements on which his opinion is expressed?	157	59	4	2
17. Has the accountant refrained from use of such general qualifications as "subject to," "except for," or "with the foregoing explanations," as would tend to cast doubt on his opinion?	154	53	11	4
18. Were appropriate exceptions taken to the opinion where the accountant's comments included in his report indicated deficiencies of such nature as should require exception?	30	40	147	5

## FINANCIAL STATEMENTS

19. If the district is on the accrual basis, do the financial statements include a balance sheet, a statement of revenues and expenditures and a statement of changes in fund balances?	15	9	194	4
20. If the district is on a cash basis, is there presented somewhere in the report a statement of assets, liabilities and fund balances?	29	177	14	3
21. Is the statement of income and expenditures or cash receipts and disbursements presented in sufficient detail to be meaningful? (That is, are separate amounts reported for revenues from taxes, other governmental divisions, student and community services, fines, interests, investments, etc., and, as to disbursements, for administration, instruction, attendance,				

<u>Items</u>	<u>Yes</u>	<u>No*</u>	<u>N.A.**</u>	<u>No Answer</u>
FINANCIAL STATEMENTS (CONT'D)				
health, operation of plant, transportation operations, maintenance, fixed charges, student and community services, etc.)	200	21	-	1
22. Does the audit report contain a comparison of actual amounts of revenues and expenditures or cash receipts and disbursements with amounts budgeted?	47	173	1	1
23. Is a schedule pertaining to transactions between funds and inter-fund balances presented in the report?	28	169	23	2
24. If the statements indicate that there have been transactions in tax anticipation warrants or teachers' orders during the year, does the report include a summary of these transactions together with beginning and ending balances outstanding?	23	53	145	1
25. Does the report include a statement of bonded debt outstanding and changes therein during the year?	107	101	13	1
26. Does the report include a statement of cash receipts and disbursements for the activities' funds of the district or make reference to a separate report covering these funds?	118	83	21	-
27. Is there included in the report detailed schedules setting forth receipts and disbursements in approximately the number of categories used on the official budget form for school districts?	197	23	1	1



<u>Items</u>	<u>Yes</u>	<u>No*</u>	<u>N.A.**</u>	<u>No Answer</u>
FINANCIAL STATEMENTS (CONT'D)				
28. If the statements indicate that significant revolving funds have been created, does the report indicate an audit thereof?	197	23	1	1
29. Does the audit report include information with respect to assessed valuation and property taxes as to the current levy, such as amounts levied, amounts extended, amounts collected and rates as compared with legal limits?	82	138	1	1
30. If the district is on a cash basis, can it be determined from the content of the financial statements or schedules whether or not the district was holding investments in United States Treasury bills or other legal forms of investment as of the end of the year and the amount thereof?	84	89	46	3
31. Does the statement of revenues and expenditures or receipts and disbursements differentiate between, and present subtotals of, revenue and nonrevenue receipts and operating and nonoperating expenditures or disbursements?	145	74	2	1
32. Has the auditor been careful throughout the report to maintain the distinction between his primary representations in the Accountants' Report, and the district's primary representations which are the financial statements upon which he is reporting?	164	52	2	4
GENERAL				
33. Other than as indicated in answering the above, does this audit report				

<u>Items</u>	<u>Yes</u>	<u>No*</u>	<u>N.A.**</u>	<u>No Answer</u>
GENERAL (CONT'D)				
taken as a whole present:				
A. The accountant's findings clearly and adequately?	153	59	-	10
B. Adequate disclosure of basic financial information?	115	95	1	11
34. If there are any other features of this report which you considered to be particularly good, bad, or interesting, please indicate their nature.	163	-	-	59

\*All "no" answers should be accompanied by a brief explanation.

\*\*Not applicable.

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REVIEW OF AUDIT REPORTS ON ILLINOIS SCHOOL DISTRICTS  
EXCERPTS FROM CERTAIN COMMENTS OF REVIEWERS

The Bond and Interest Fund indicates the existence of bonded debt, but no mention is made in the report of total debt obligation.

- - -

Two funds listed in the financials have significant cash balances, but no mention is made of any investments made during the year although interest income is reflected on the statements.

- - -

The report indicates the existence of investments maintained but furnishes no details with respect thereto.

- - -

The opinion is unclear and confusing. After stating that the auditor is unable to express an opinion on the statements of cash receipts and disbursements and fund balances taken as a whole, he proceeds to recite that the receipts and disbursements are recorded in all material respects in accordance with the Illinois Financial Accounting Manual.

- - -

Disclosure of basic financial information is inadequate. No details are presented with respect to status of tax warrants, bonds outstanding, and loans between funds.

- - -

The balance sheet does not show fund balance for each separate fund. Fund balances are identified as "surplus".

- - -

The auditor expresses a qualification to the opinion to the effect that he was unable to verify beginning cash balances. It would appear that the reservations with respect to beginning cash balances could have been easily removed and that the required audit steps should have been performed.

- - -

In his scope paragraph, the auditor makes the anomalous statement that the examination was made in accordance with instructions published by the office of the Superintendent of Public Instruction. In the same vein, the auditor's opinion states: "The accompanying statements of cash receipts and disbursements and schedule of bonds outstanding present fairly the financial results of operations of the School District for the year ended June 30, 1962 and its present position in respect to its long-term obligations."

- - -

The auditor does not state whether significant payables existed at the beginning or end of the reporting period, nor whether any examination was made including them. School districts on a cash basis of reporting sometimes hold back on the payment of bills in order to affect the presentation of cash balances on their financial statements.

- - -

Certain information of value has been omitted, particularly in the areas of tax levies, investments, bonded indebtedness, and interfund transactions.

- - -

The auditor states that he examined the several funds presented in the report. The law requires that all funds should be examined. If all funds were not examined, the auditor should make definite statements to that effect. If all funds were examined, the auditor should make an unequivocal statement that all funds were examined.

- - -

The accountant's opinion states: "In our opinion, the attached statements provide full information as to the receipts and disbursements of . . ." No reference is made with respect to the accountant's opinion regarding the fairness of the representations contained in the statements.

- - -

The wording of the accountant's opinion is confusing. It states: "In my opinion, with consideration given to comments in the three preceding paragraphs . . ." It is not clear whether the auditor intended to utter an exception to the opinion. The "three preceding paragraphs" do not appear to contain exceptions.

- - -

The school district under review maintains its records on a modified accrual basis. No mention is made in the report as to adherence to generally accepted accounting principles nor with respect to consistency in the accounting underlying the financial statements.

- - -

The auditor refers to "generally accepted cash fund auditing standards." There are no such "generally accepted" standards.

- - -

In voicing an exception in the opinion section, the auditor states: "Our examination did not include tests of current and delinquent taxes receivable by direct correspondence with taxpayers." The district has no direct responsibility or records relating to the tax collection function, and hence this procedure would not be reasonably required nor practicable in the circumstances. The voicing of such an exception in the opinion, to the exclusion of others, could give rise to the unwarranted inference that in all other respects the audit was conducted in accordance with generally accepted auditing standards.

- - -

The auditor's opinion follows ten pages of narrative, much of which does not pertain to the opinion on the financial statements, some of which raise questions as to whether the accountant can even render an opinion on the subject matter, and some of which cover subject matter upon which the auditor is not qualified to pass judgment. The over-all affectiveness of the opinion seems to be lost in a sea of confusion.

- - -

The report presents a great deal of detail. There is much repetition particularly with respect to information contained in the text of the report which is also contained in the statements and schedules. The sheer mass of data and manner of presentation do not encourage study of the report.

- - -

From the review of this report, it would seem that the auditor should not have had to refer to "recorded transactions" which qualifies an otherwise fine report.

- - -

The accountant renders his opinion of "results of operations", but the statements present only cash receipts and disbursements. Cash receipts and disbursements do not show results of operations.

- - -

The auditor uses the words "recorded cash transactions," thereby raising a question as to what he did to determine that there were no unrecorded transactions.

- - -

The audit report does not present findings clearly and adequately. The opinion is clouded by being made "subject to" extensive (nine pages) comments.

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### APPENDIX III

LETTER, CHAIRMAN, LOCAL GOVERNMENTAL ACCOUNTING COMMITTEE OF THE  
ILLINOIS SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS,  
MAY 27, 1964

The Illinois Society of Certified Public Accountants  
208 South La Salle Street  
Chicago, Illinois 60604  
May 27, 1964

To the Members  
Illinois Society of Certified Public Accountants  
208 South La Salle Street  
Chicago, Illinois

Gentlemen:

The enclosed audit guidelines and model audit reports for school districts have been prepared by the Local Governmental Accounting Committee of the Illinois Society of Certified Public Accountants to be used by members of the Society. It should, of course, be recognized that these guidelines and statements are only guides and that of necessity individual judgment will be required in individual cases. The committee felt strongly that the accrual basis of reporting should be advocated wherever possible. It is recognized, however, that the vast preponderance of school districts in the state maintain their accounting records and file reports on the cash basis of accounting, and for this reason the cash basis statements are included.

Certainly the independent certified public accountant is in an excellent position to explain the advantages of accrual basis reporting to individual school districts. It is hoped that present cash basis reporting should be considered merely as transitional, and that with proper education all school districts eventually will be reporting on the accrual basis.

The Committee would welcome your comments relative to experience in using the attached drafts and your suggestions for improvement. Our present thinking is that a final draft will be prepared in the future giving consideration to comments received.

Again, it should be emphasized that these audit guidelines

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and model audit reports are only guides and are in no way to be considered as covering all possible eventualities that might occur in a particular school district.

Respectfully submitted,

Robert L. Coker, Chairman /s/  
Local Governmental Accounting  
Committee



APPENDIX IV

STATE OF ILLINOIS  
OFFICE OF THE SUPERINTENDENT OF PUBLIC INSTRUCTION  
RAY PAGE, SUPERINTENDENT

QUESTIONNAIRE TO BE COMPLETED BY SCHOOL DISTRICT AUDITORS  
(1962-1963)

The person or firm performing auditing services for school districts as required in Section 3-7 of the School Code of Illinois, 1961, must attach one copy of this questionnaire to each of the two audit reports filed with the County Superintendent of Schools. Two additional copies are furnished herewith, one for the school district and one for the auditor.

1. District

County \_\_\_\_\_  
Number \_\_\_\_\_  
Name \_\_\_\_\_  
Street \_\_\_\_\_  
City \_\_\_\_\_

2. Auditor

Name of Firm \_\_\_\_\_  
Street \_\_\_\_\_  
City \_\_\_\_\_  
Person to whom correspondence should be addressed \_\_\_\_\_

3. Were all funds included in the audit? Yes \_\_\_\_\_ No \_\_\_\_\_. (This includes Activity Fund, Imprest Fund, Trust Fund, and all District Funds.) If answer is "No", explain exception and give reason for omission. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

4. Did you prepare the School District Annual Financial Report?  
Yes \_\_\_\_\_ No \_\_\_\_\_.

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5. Does your report contain an unqualified opinion? Yes \_\_\_\_\_  
No \_\_\_\_\_.
6. Does your report specifically deny an opinion? Yes \_\_\_\_\_ No \_\_\_\_\_.  
If "Yes", state reason briefly here. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
7. Did the district allow any fund to reflect an overdraft in the fund cash amount at the end of any month? Yes \_\_\_\_\_ No \_\_\_\_\_.  
If "Yes", have you advised the district to continue the practice? Yes \_\_\_\_\_ No \_\_\_\_\_.
8. Have any interfund loans been made other than between the Educational Fund and the Building Fund? Yes \_\_\_\_\_ No \_\_\_\_\_. If "Yes", give brief summary below:  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
9. a. Were all interfund loans that were in existence on July 1, 1962, repaid? Yes \_\_\_\_\_ No \_\_\_\_\_.  
b. If "Yes", were they repaid within one year from the date of the loan? Yes \_\_\_\_\_ No \_\_\_\_\_.  
c. If the answer to either "a" or "b" is "No", give brief summary below:  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
10. In your opinion, are the internal control and internal check procedures in use adequate in the circumstances? Yes \_\_\_\_\_  
No \_\_\_\_\_. If "No", give brief summary below:  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
11. In your opinion, are the accounts maintained by the district adequate? Yes \_\_\_\_\_ No \_\_\_\_\_. Briefly, list improvements needed. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

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12. Are the accounts generally maintained in accordance with the Illinois Financial Accounting Manual for Local School Districts? Yes \_\_\_\_ No \_\_\_\_ . List exceptions: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
13. Was there any delay in depositing money received? Yes \_\_\_\_  
No \_\_\_\_ . If "Yes", explain briefly. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
14. Were all investments owned at any time during the year in accordance with the regulations outlined in "Investment of Public Funds," Page 450 of the School Code of Illinois, 1961? Yes \_\_\_\_ No \_\_\_\_ . List exceptions: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
15. a. Are all investments in the name of the district? Yes \_\_\_\_  
No \_\_\_\_ .  
b. Are they under the custody of the treasurer? Yes \_\_\_\_  
No \_\_\_\_ .  
c. If the answer to either "a" or "b" is "No", list exceptions: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
16. Was all interest credited to the fund of ownership? Yes \_\_\_\_  
No \_\_\_\_ . List exceptions: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
17. Are investments properly segregated by funds of ownership? Yes \_\_\_\_ No \_\_\_\_ . List exceptions: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
18. a. In your examination of investments, did you determine to your satisfaction that the district received all interest that should have been received: Yes \_\_\_\_ No \_\_\_\_ . Explain: \_\_\_\_\_  
\_\_\_\_\_

18. b. Was there any undue delay in the deposit of interest received? Yes \_\_\_\_ No \_\_\_\_\_. If "Yes", explain briefly: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
19. In your opinion, did the Activity Fund reflect the deposit of district money? Yes \_\_\_\_ No \_\_\_\_\_. Explain if answer is "Yes".  
\_\_\_\_\_  
\_\_\_\_\_
20. Did your examination and tests of the accounting records disclose any evidence of fraud or dishonesty? Yes \_\_\_\_ No \_\_\_\_\_. If "Yes", state particulars in summary form and pages in audit report where details are set forth. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
21. a. Has the district handled its Imprest Fund in accordance with the Illinois Financial Accounting Manual for Local School Districts? Yes \_\_\_\_ No \_\_\_\_\_. If "No", list exceptions: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
- b. For what amount was the Imprest Fund created \$ \_\_\_\_\_
- c. Was the Imprest Fund returned intact to the district treasurer on or before June 30, 1963? Yes \_\_\_\_ No \_\_\_\_.

Signed \_\_\_\_\_ Date \_\_\_\_\_

STATE OF ILLINOIS  
OFFICE OF THE SUPERINTENDENT OF PUBLIC INSTRUCTION  
RAY PAGE, SUPERINTENDENT

QUESTIONNAIRE TO BE COMPLETED BY AUDITORS OF THE TOWNSHIP TREASURERS OF SCHOOL DISTRICTS  
(1963-1964)

The person or firm performing auditing services for school districts as required in Section 3-7 of the School Code of Illinois, 1963, must attach one copy of this questionnaire to each of the two audit reports filed with the County Superintendent of Schools. Two additional copies are furnished herewith, one for the school district and one for the auditor.

1. a. District

County \_\_\_\_\_  
Number \_\_\_\_\_  
Name \_\_\_\_\_  
Street \_\_\_\_\_  
City \_\_\_\_\_

b. Treasurer

Township \_\_\_\_\_  
Range \_\_\_\_\_  
Name of Treasurer \_\_\_\_\_  
Street \_\_\_\_\_  
City \_\_\_\_\_

2. Auditor

Name of Firm \_\_\_\_\_  
Street \_\_\_\_\_  
City \_\_\_\_\_  
Person to whom correspondence should be addressed \_\_\_\_\_

3. a. Did you audit the underlying records of the school district?  
Yes \_\_\_\_\_ No \_\_\_\_\_. If answer is "No", list the name and  
address of the auditor who examined the district records:

\_\_\_\_\_  
\_\_\_\_\_

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3. b. If you audited the underlying records of the school district, were all funds included in the audit? Yes \_\_\_\_\_ No \_\_\_\_\_.  
List exceptions: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
4. Did you prepare the School District Annual Financial Report?  
Yes \_\_\_\_\_ No \_\_\_\_\_.
5. Does your report contain an unqualified opinion? Yes \_\_\_\_\_  
No \_\_\_\_\_.
6. Does your report specifically deny an opinion? Yes \_\_\_\_\_  
No \_\_\_\_\_. If "Yes", state reason briefly here. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
7. Did the treasurer allow any fund to reflect an overdraft in the fund cash amount at the end of any month? Yes \_\_\_\_\_ No \_\_\_\_\_.  
If "Yes", have you advised the district to continue the practice? Yes \_\_\_\_\_ No \_\_\_\_\_.
8. Have any interfund loans been made other than between the Educational and the Building Fund? Yes \_\_\_\_\_ No \_\_\_\_\_. If "Yes", give brief summary below:  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
9. a. Were all interfund loans that were in existence on July 1, 1963, repaid? Yes \_\_\_\_\_ No \_\_\_\_\_.  
b. If "Yes", were they repaid within one year from the date of the loan? Yes \_\_\_\_\_ No \_\_\_\_\_.  
c. If the answer to either "a" or "b" is "No", give brief summary below:  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
10. In your opinion, are the internal control and internal check procedures in use adequate in the circumstances? Yes \_\_\_\_\_  
No \_\_\_\_\_. If "No", give brief summary below:  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

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11. In your opinion, are the accounts maintained by the district adequate? Yes \_\_\_\_ No \_\_\_\_\_. Briefly, list improvements needed. \_\_\_\_\_  
\_\_\_\_\_
12. Are the accounts generally maintained in accordance with the Illinois Financial Accounting Manual for Local School Systems? Yes \_\_\_\_ No \_\_\_\_\_. List exceptions: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
13. Was there any delay in depositing money received? Yes \_\_\_\_ No \_\_\_\_\_. If "Yes", explain briefly. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
14. Were all investments owned at any time during the year in accordance with the regulations outlined in "Investment of Public Funds," Page 478 of the School Code of Illinois, 1963? Yes \_\_\_\_ No \_\_\_\_\_. List exceptions: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
15. a. Are all investments in the name of the treasurer? Yes \_\_\_\_ No \_\_\_\_\_.  
b. Are they under the custody of the treasurer? Yes \_\_\_\_ No \_\_\_\_\_.  
c. If the answer to either "a" or "b" is "No", list exceptions  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
16. Was all interest credited to the fund of ownership? Yes \_\_\_\_ No \_\_\_\_\_. List exceptions: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
17. Are investments properly segregated by funds of ownership? Yes \_\_\_\_ No \_\_\_\_\_. List exceptions: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

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18. a. In your examination of investments, did you determine to your satisfaction that the treasurer received all interest that should have been received? Yes \_\_\_\_ No \_\_\_\_ . List exceptions: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
- b. Was there any undue delay in the deposit of interest received? Yes \_\_\_\_ No \_\_\_\_ . If "Yes", explain briefly: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
19. Did your examination and tests of the accounting records disclose any evidence of fraud or dishonesty? Yes \_\_\_\_ No \_\_\_\_ . If "Yes", state particulars in summary form and pages in audit report where details are set forth. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
20. a. Has the district handled its Imprest Fund in accordance with the Illinois Financial Accounting Manual for Local School Systems? Yes \_\_\_\_ No \_\_\_\_ . If "No", list exceptions: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
- b. For what amount was the Imprest Fund created? \$ \_\_\_\_\_
- c. Was the Imprest Fund returned to the district treasurer on or before June 30, 1964? Yes \_\_\_\_ No \_\_\_\_ .
21. Was the Township Loanable Fund included in the audit?  
Yes \_\_\_\_ No \_\_\_\_ .

Signed \_\_\_\_\_ Date \_\_\_\_\_



APPROVAL SHEET

The dissertation submitted by Patrick F. Ahern has been read and approved by five members of the Department of Education. The final copies have been examined by the director of the dissertation and the signature which appears below verifies the fact that any necessary changes have been incorporated and that the dissertation is now given final approval with reference to content, form, and mechanical accuracy.

The dissertation is therefore accepted in partial fulfillment of the requirements for the Degree of Doctor of Education.

May 21, 1965  
Date

W. W. Meyer  
Signature of Adviser